Annual report

Annual report of the QSuper Board of Trustees and the Government Superannuation Office

2006/2007

QSuper

Contents

Contacting QSuper

Contact Centre

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qsuper.qld.gov.au

Additional copies

You can obtain additional copies of this annual report by visiting the QSuper website at qsuper.qld.gov.au, or calling QSuper on 1300 360 750.

Disclaimer

The information in this report is not personal advice and has been prepared for general information purposes only, from sources believed to be reliable and accurate. It does not, therefore, take into account your personal objectives, financial situation, or needs. Before acting or relying on any information contained in this report, you should consider whether you need to seek personal financial advice.

Magdeline Wong
QSuper member
since 1977

Our profile

Everything we do is focused on giving our members the best super fund possible

The Treasurer of Queensland is responsible for the superannuation arrangements of the Queensland state public sector, with the major fund being QSuper. Up until 30 June 2007, the Government Superannuation Office, as a portfolio office of Queensland Treasury, administered QSuper for its Board of Trustees (the Board). On 1 July 2007 a new entity – QSuper Limited – was created, which assumed responsibility for the administration of QSuper.

The Queensland Government provides valuable superannuation coverage to its employees, offering generous employer contributions and flexible options to assist members in meeting their retirement income needs. Importantly, the Queensland Government fully funds superannuation benefits for its employees, which gives long-term security of members' benefits. Through the Board, superannuation for Queensland state public sector employees is managed as a partnership between employers and unions.

QSuper is a leading fund within the Australian superannuation industry, and the Board is committed to helping Queensland state public sector employees to achieve their retirement income goals by providing quality products and services.

The Commonwealth Government has classified the Queensland Government's superannuation fund as an exempt public sector superannuation scheme under the *Superannuation Industry (Supervision) Act 1993*. However, while the Queensland Government's superannuation fund is technically exempt from this legislation, it complies with Commonwealth Government retirement income policies by means of a Heads of Government Agreement.

As explained in this report, QSuper is considering opting into full Commonwealth Government regulation.

Purpose of this report

The Board and QSuper Limited have pleasure in submitting our annual report for the twelve months ended 30 June 2007.

This report has been prepared for the Queensland Parliament, and other individuals and organisations sharing an interest in the objectives, achievements, and future direction of QSuper.

Vision

As a leading Australian superannuation fund, QSuper will be recognised for our contribution to the quality of each member's life through low fees, real service, better knowledge, and solid returns.

Values

Our values are:

- members
- innovation
- delivery
- professionalism.

Our JOURNEY 1912 – 2007

QSuper and the superannuation industry have shared a rich and diverse history. And although we've changed a lot over these 95 years, one thing hasn't changed at all – our commitment to helping Queenslanders shape a better future for themselves and their families. Throughout this report you can follow our journey – see how we've grown and developed from our earliest origins in 1912 up to the present day.

1912

Following discussions with public service unions, the *Public Service Superannuation* Act received assent in December.

1913

The Public Service Superannuation Fund began operating on 1 January 1913 and the contributions were deducted from salaries at the end of the same month.

Our trustees

Our trustees are chosen because of their experience, understanding, and integrity

The year that was

by Gerard Bradley

It's been another year of solid investment returns, and QSuper has again delivered strong crediting rates for Accumulation accounts. This is thanks not only to the current economic climate, but also to the strong management of the Fund's investments.

Over the last year the Fund experienced steady growth, with the total funds under management increasing by 21% from $19.3 billion in the 2005/2006 financial year to $23.3 billion in 2006/2007.

Industry changes

The 2006/2007 financial year saw a great deal of change for QSuper and the superannuation industry as a whole, with preparations for the 1 July 2007 introduction of many of the Commonwealth Government's new super rules. During 2006/2007, a significant focus was placed on implementing the Commonwealth Government's super changes through a comprehensive education program for both QSuper members and staff, and on updating member communications and transactional systems.

The changes to superannuation legislation were responsible for bringing about an unprecedented demand for member services, particularly for information and education. Transactional volume was also high, with member contributions reaching record levels.

QSuper members were also a major recipient of the Commonwealth Government double co-contribution, and in total QSuper received around $160 million in co-contributions this year on our members' behalf.

Awards

The Board is very proud that even during a time of such significant change, QSuper was able to cement its standing as an industry leader by receiving a number of awards, including a prestigious Platinum rating from SuperRatings and a top rating from Chant West. In addition, SuperRatings recognised QSuper's Allocated Pension and Accumulation account products with awards, and the QSuper website received awards from the Association of Superannuation Funds of Australia and the Conference of Major Superannuation Funds.

Fund regulation

As one of Australia's largest super funds, the Board believes it's important to constantly look for ways to make QSuper better for members. During the last year, the Board began investigations into becoming a Commonwealth regulated superannuation fund.

QSuper is currently overseen by the Queensland Government, whereas the majority of other superannuation funds are regulated by the Commonwealth Government. However, QSuper does comply with the spirit of Commonwealth Government laws through a Heads of Government Agreement. A regulated superannuation fund answers directly to Commonwealth regulators and must comply with a wide range of requirements, which are designed to protect members' interests.

Over the past financial year, we have made substantial progress in our analysis of whether to become a regulated fund.

QSuper Limited

Up until 30 June 2007, the administration of QSuper was provided by the Government Superannuation Office (GSO) as an office of Queensland Treasury. However, in a regulated environment the Board needs to have direct control over the administration functions of QSuper.

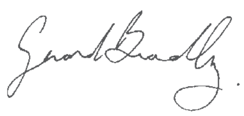
To make this possible a new company, QSuper Limited, was established as a subsidiary of the Board. Since 1 July 2007, QSuper Limited has been administering the funds, assets, and liabilities of QSuper, and directly employs some staff.

QSuper changes

During the year QSuper continued to innovate for its members by significantly improving insurance. We also introduced transition to retirement strategies for eligible members, and the ability to split contributions with a spouse. In addition, the membership of the closed Parliamentary Contributory Superannuation Fund and the fund's assets were transferred to QSuper on 30 June 2007.

Acknowledgements

On behalf of the Board, I would like to thank QSuper's major service providers, including QSuper Limited (formerly the Government Superannuation Office), QIC, Q Invest, KPMG, Watson Wyatt, and the State Actuary. The Board also appreciates the support received from the Auditor-General of Queensland. I would also like to thank Board members for their commitment to QSuper and its members.



Gerard Bradley
Under Treasurer
Chairman of the Board

1913

By 20 October 1913 there were 2,509 members of the Public Service Superannuation Fund.

1927

The first amendment to the 1912 Act was made to include the staff of the University of Queensland.

The Board has a STRONG UNDERSTANDING of members' needs

Employer representatives

As nominated by the Queensland Government

Gerard Bradley

Under Treasurer, Under Secretary of Queensland, and Chairman of the Board

Meeting attendance: 9
(Deputy – Tim Spencer
Meeting attendance: 2)

Linda Apelt

Director-General, Department of Communities and Disability Services Queensland

Meeting attendance: 9
(Deputy – Wayne Cannon
Meeting attendance: 1)

Terri Hamilton

Director, Terri Hamilton Financial Services

Meeting attendance: 11

Tony Hawkins

Chief Executive Officer, WorkCover Queensland

Meeting attendance: 12

John Carpendale

Former superannuation industry executive

Meeting attendance: 12

Member representatives

As nominated by the Combined Public Sector Unions' Superannuation Committee

Karen Peut

Representing the Queensland Public Sector Union of Employees

Meeting attendance: 12
(Deputy – Alex Scott)

Chris Barrett

Assistant General Secretary, Queensland Council of Unions

Meeting attendance: 12
(Deputy – Grace Grace)

Garry Ryan

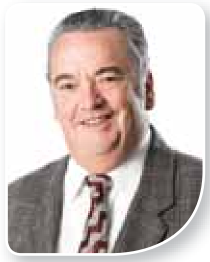
Queensland Branch President and Southern District Secretary, The Australian Workers' Union

Meeting attendance: 6
(Deputy – Tom Jeffers
Meeting attendance: 5)

Steve Ryan

President, Queensland Teachers' Union

Meeting attendance: 12
(Deputy – Jeff Backen)



Merv Bainbridge

Deputy representing the Queensland Police Union of Employees

Meeting attendance: 12
(Deputy for Gary Wilkinson)

A winning team

Our Trustees have an important job guiding the future development of QSuper. They meet at least once a month to make important decisions relating to the future of QSuper, and closely supervise the management of the Fund.

Half of our Trustees are chosen by public sector unions, and the other half are selected by the Queensland Government. This means the Board has a strong understanding of our members' needs, both from a employer and employee perspective.

When combined with their individual areas of expertise, this means our members can be sure they're being backed by a winning team.

The Trustees of QSuper are known as the Board of Trustees of the State Public Sector Superannuation Scheme (ABN 60 905 115 063), and the Board is constituted under the *Superannuation (State Public Sector) Act 1990* (the Act).

1949

A bonus was paid to members on any annuity units held.

1954

An additional payment was made to some pensioners, and a bonus was paid to annuity unit holders.

Our vision

Queensland is important to us – and we're important to Queensland

The past year has been one of massive change for both QSuper and the Australian superannuation industry as a whole, with the introduction of the Commonwealth Government's new super rules, or 'simpler super'.

This is an exciting time for the superannuation industry! QSuper has embraced simpler super, successfully implementing the required major changes to our information systems, processes and member education services. It is, however, an especially exciting time for QSuper, as we are on the cusp of a major internal change in becoming a regulated fund.

With such transformations occurring both externally and internally, we believe it is time for QSuper to build on our current strategic plan and develop new strategies. In doing so we can further cement our position as one of the major players in the Australian superannuation industry, and continue to offer innovative products and services to our members.

Continuing the move toward regulation

A key focus of the coming months will be to work with Commonwealth Government regulators APRA and ASIC to ensure the correct framework is in place should the Board approve the move towards regulation. A move in this direction will create opportunities to cater for members who have continued in employment but left the state public sector. On this basis we would consider expanding our member offer to accept contributions from new employers of such members.

Enhancing member options

Our primary goal however, is – and always will be – to continue to improve our members' retirement options through innovation and excellence. To this end, 2007/2008 will see the development of an enhanced accumulation product to manage the various life stages of membership. We also intend to build on our investment innovations of 2006/2007 with the addition of new investment choices and asset classes to our suite of investment options.

The better the knowledge, the better the decisions

At QSuper we have long been dedicated to providing a wide range of quality education tools for our members to help them make informed decisions about their future. In 2007/2008 we will be taking the next step, in partnership with QUT, in our financial literacy program for members.

This program will build on the success of the financial literacy seminars presented this year in partnership with the Department of Education, Training and the Arts. In the coming year, this seminar will be added to our general seminar program. In addition we will develop new educational tools using DVDs and online delivery methods.

Looking to the future

An increased focus will be placed on marketing QSuper through proactive and targeted contact with members. This means we can further tailor member education services to focus on specific member segments and demographic groups.

Given the increasing number of generation X and Y members in QSuper, our next major communication challenge will be to engage these members with their super and position QSuper as their fund for life.

A recognisable brand

QSuper is focused on strengthening and maintaining our position as a leading superannuation fund by promoting a strong, recognisable brand. In this past year this strategy has progressed by developing a sponsorship program directly linked to our members' activities. In 2006/2007 QSuper sponsored a wide range of events, such as Creative Generation, Labour Day celebrations, and the Premier's Awards for Excellence. This is a presence we intend to expand on over the coming year to further position QSuper as one of Australia's leading superannuation funds.

> 'QSuper is focused on STRENGTHENING AND MAINTAINING our position as a leading superannuation fund'

1959

A new scheme was introduced on 1 April. Widows' and children's pensions were introduced and benefits increased.

1962

Widows' and children's pensions were increased significantly.

Our financial summary

QSuper's financial position continues to go from strength to strength

Financial summary	
QSuper member and employer funds as at 1 July 2006	$19,057.47m
Inflows	
Investment income	$2,806.16m
Employer contributions	$1,206.25m
Member contributions	$1,199.36m
Transfers in	$477.64m
Other income	$0.82m
Total inflows	$5,690.23m
Outflows	
Benefits paid	$1,370.51m
Administration expenses	$48.05m
Financial planning expenses	$11.40m
Income tax expenses	$604.04m
Other expenses	$13.20m
Total outflows	$2,047.20m
Net assets available to pay benefits at 30 June 2007	$22,700.50m

For detailed information refer to the financial statements on page 36.

Membership summary		
Number of members at 30 June 2007		477,480
Number of accounts at 30 June 2006		563,884
Accounts opened		59,548
Accounts closed		24,727
Number of accounts at 30 June 2007		598,705
	30 June 2006	30 June 2007
Average account balance	$63,889	$69,846

1964

The Board increased the number of members from five to six, so the employer representation equalled the member representation.

1965

Early retirement benefits from age 60 were introduced and membership expanded to include several new employers, wages, and some temporary employees.

Our executive

Our Executive team has the knowledge, dedication, and passion to guide QSuper into the future

The year ahead

by Rosemary Vilgan

The year ahead will mark the beginning of a new era for QSuper. Not only will we continue preparations for becoming a regulated fund, we will also be introducing a number of new initiatives and continuing plans to relocate to new premises.

The decision to consider becoming a regulated fund signals a turning point for QSuper, and while it brings many new opportunities for us, it will also bring its own challenges. The focus in the year ahead will be to develop innovative products and services to improve the retirement outcomes of members, while maintaining QSuper's position as a respected industry leader.

Fund regulation

In the last quarter of 2007, the Board will consider whether QSuper should proceed with becoming a regulated fund. By the time the decision is made, QSuper will have completed all the necessary work required to become a regulated fund.

This means, if the Board approves the move towards regulation, QSuper will prepare the applications for our licences and submit them to APRA and ASIC.

New premises

A decision was made during the last year to relocate the QSuper offices to the financial district of Brisbane. Plans for the move have been developing rapidly, and we are on schedule to relocate in late 2008. The move will enable us to continue delivering high quality service to our increasing membership. The new premises are located within the Brisbane CBD and will incorporate member education and seminar facilities to accommodate QSuper's extensive education and information program.

Enhanced seminar program

Our seminar program is a distinguishing feature of our service offer and is highly valued by our members, particularly given the extent of the recent simpler super legislative changes and product innovations such as transition to retirement and contribution splitting.

More than ever, our members are seeking high quality, informative presentations from a reliable source. Increased capacity will allow greater delivery and access to the seminar program for more members. Last year, we experienced an 86% increase in seminar attendance, and going forward we hope to further engage our members through our comprehensive seminar program.

Looking to the future

Although the past financial year has presented us with many challenges, these busy times have also highlighted our strengths, including a very committed staff. We have many exciting plans for QSuper as we move toward the future, and it's my expectation that the 2007/2008 financial year will see the fruition of the hard work and planning of this year.

Rosemary Vilgan
Chief Executive Officer

> 'The year ahead will mark THE BEGINNING of a new era for QSuper'

1968

Married female employees who remained in permanent employment could continue their contributions, and the total number of contributory members reached 25,051.

1969

The option of commuting a pension to a lump sum was introduced, and pensions were indexed by 3% annually.

Rosemary Vilgan
B.Bus, FAICD, FASFA
Chief Executive Officer
QSuper and QSuper Limited
Government Superannuation Officer

Rosemary Vilgan was appointed Executive Director of the Government Superannuation Office in January 1998. She holds a Bachelor of Business (Marketing) and a Diploma of Superannuation Management.

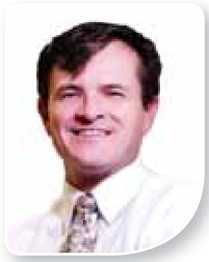
Rosemary is primarily responsible for management of QSuper and its administrator, QSuper Limited, as well as the Judges' Pension Scheme and Long Service Leave entitlements. She provides advice to the QSuper Board of Trustees and the Queensland Government to ensure the provision of adequate retirement incomes for Queensland Government employees. Rosemary's professional interests include chairing the Board of Directors of the Association of Superannuation Funds of Australia (ASFA), and in addition she is a director of Q Invest Limited (a financial planning body jointly owned by QSuper and QIC). Rosemary is also a member of the QUT Council.

Don Kofoed
Chief Strategy Officer
B.Bsc, GCertPSMgmt, MBA

As the Chief Strategy Officer, Don's key role is to develop and drive the strategic direction of QSuper by formulating and implementing the strategic plan to achieve the directions set by the Board. Don's responsibilities are to guide policy setting and investment directions.

Helen Coyer
Chief Operating Officer
B.Bus(Acc), Grad Dip(IT), CPA

As the Chief Operating Officer, Helen leads and promotes real service and better knowledge to members. Helen's role is to provide a broad range of member contact services, insurance services, and account administration services. Helen also monitors the current operation of service standards to implement improvements where appropriate.



Cliff Kaye
Chief Financial Officer
B.Com(Hons), CA, MBA(AGSM), FCIS, PGCertAppFin (Macq)

As the Chief Financial Officer, Cliff leads, manages, and monitors the financial operations, change programs, and resource management for QSuper's internal and external stakeholders. This assists in the provision of low fees to members. Cliff's role includes financial and statutory reporting, budgets and cash flow management, management of Fund reserves, and the maintenance of all information systems.

General Manager
Fund Development
Karen Waldon-White

General Manager
Strategy
Paul Smith

A/General Manager
Investment Services
Adam Walk

General Manager
Risk and Compliance
Vacant

A/General Manager
Member Services
John Sawtell-Rickson

General Manager
Operations
David Wood

General Manager
Insurance Management
Barry Cook

General Manager
Technical Services
Lyn Melcer

General Manager
Finance
Peter Lockington

General Manager
Information and Communication Technology
Baden Sharples

General Manager
Human Resources
Vacant

1973

A new scheme commenced – contributions were based on salary percentage from 1 January 1973 and benefits based on length of fund membership.

1974

Pensions were indexed with the Consumer Price Index, and children's pensions could be paid to the children of female members.

Our awards

At QSuper we strive to be the best, because that's what our members deserve

SuperRatings
During the 2006/2007 financial year, leading ratings company SuperRatings acknowledged QSuper's significant industry presence with a series of accolades, including a prestigious platinum rating for our Accumulation account.

A platinum rating is only given to the top 15% of more than 220 funds assessed by SuperRatings, and to receive this rating an accumulation account must perform in an above-average capacity across all of SuperRating's key assessment areas.

In addition, our Accumulation account was awarded the Rising Star award at SuperRatings' fourth annual industry Awards. This award is given to the fund that has demonstrated a clear commitment to improving the value of their offering to members over the previous twelve months. SuperRatings assessed more than 240 of Australia's leading superannuation products before awarding their Rising Star award to QSuper.

Finally, SuperRatings named the QSuper Allocated Pension account as its 'Runner-up – Pension Fund of the Year', after reviewing all the available pension products within the Australian market. This award is a testament to the value and low fee position of our Allocated Pension account, and acknowledges the quality services we provide to QSuper members.

CMSF Communications Awards
QSuper was recognised as a superannuation industry leader by the Conference of Major Superannuation Funds (CMSF) last financial year, our communications being acknowledged with both a Gold and Silver award in the annual CMSF Communications Awards.

ASFA Communication Awards
In addition to a Gold CMSF Communication award, our website recently received a Merit award for member education at the 2007 Association of Superannuation Funds of Australia Communications Awards.

These awards recognise super funds that have excelled in the area of communication. We're delighted that our efforts to create a web presence that meets the demands of our members have been acknowledged by the superannuation industry.

Other awards
This year Chant West, a specialist superannuation research and consultancy firm, again awarded QSuper its highest rating. A Chant West rating is the result of an overall assessment of the merits of a superannuation fund, relative to industry best practice.

At the Australian Teleservices Association awards one of our staff, Grant Chalk, won the state title of Teleservices Centre Champion.

1978

The pre-retirement seminar program was launched.

1983

Significant changes were made to superannuation taxation legislation, resulting in higher taxation on lump sums.

Our communication

Making sure our members understand their super is our top priority

Benefit statements

During the 2006/2007 financial year we sent out over 410,000 benefit statements to QSuper members.The majority of these were sent out between August and September.

To help our members understand their super, we included both the members' fee and transaction histories in their benefit statements.

Lost member initiative

In February and May we worked together with the Australian Taxation Office to conduct two lost member campaigns. A lost member is a member we don't have a current address for and these initiatives directly resulted in over 2,500 of these members being reunited with their QSuper accounts.

Our segmentation strategies

Over the last few years, we have increasingly communicated with our members based on specific generational segments and other demographic information.

This year we focused on enhancing our ability to understand and analyse our membership. This helps us ensure the products and services we provide are relevant to our membership, and that educational material or messages are communicated effectively to a receptive audience.

Super Scoop

Over 15 years we have developed and refined an engaging magazine-style format for our annual report to members. As a result *Super Scoop* consistently enjoys exceptionally high levels of recall, readership, and recognition among our members.

Our research suggested our older members wanted more detailed information when it came to superannuation. External research conducted in both late 2005 and early 2006 indicated these members were interested in seeing more case studies showing how superannuation rules and strategies applied to them.

For this reason, *Super Scoop* featured a strong emphasis on superannuation case studies. Continuing our successful segmentation strategy from previous years, *Super Scoop* was segmented into over and under age 50 demographics, and targeted towards these members' specific interests and life stages.

Targeted campaigns

New proactive campaigns were introduced during the 2006/2007 financial year to strengthen our communication with members. These will be implemented on an ongoing basis at key points in a member's superannuation life. Examples of our key trigger point campaigns include an age 50 campaign, and another which is triggered by ten years of QSuper membership.

QSuper online

Our website is one of the most comprehensive superannuation websites in Australia.

After the 2005/2006 facelift of our website, we continued to make improvements to our online facilities by upgrading the members' personal, secure log-on area.

Demand for online services continued to increase last year, with a 43% increase in visits to the website, taking total visits to 1.15 million for the financial year. Additionally, over 90,000 members are now taking advantage of the improved services allowing them to access their personal information online.

348,121 more visits to our website during 2006/2007

'OVER 80% of members recall receiving SUPER SCOOP in 2006'

This year the QSuper website has seen a 43% increase in web traffic

1984

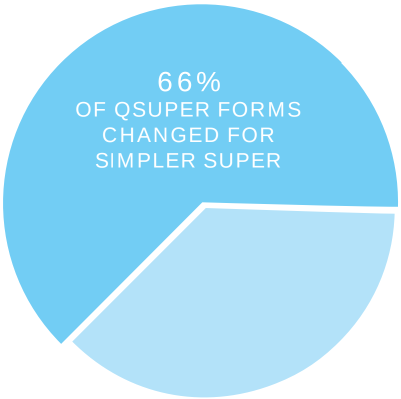
Amendments to the scheme enabled existing female members to purchase spouse's cover, and a raft of additional benefits.

1985

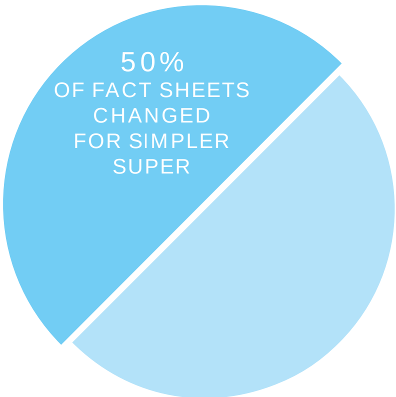
Portability of superannuation between public sector schemes in Queensland and other states promoted the mobility of public sector employees.

Our initiatives

We're always looking for innovative ways to be the best we can be



MEMBER publications affected by SIMPLER SUPER



Simpler super

There's no doubt that the Commonwealth Government's major superannuation reforms, which came into effect in 2007, are a huge benefit to superannuation fund members in Australia, and have positioned our country as one of the world leaders in superannuation. Simpler super legislation had broad implications for the superannuation industry as a whole, as well as for QSuper.

During 2006/2007, the whole industry worked diligently to effectively implement the sweeping set of changes that needed to be communicated to members and employers, and put in place from 1 July 2007. The changes also required us to initiate a major communication program with our members and employers.

The impact of the legislative changes on our core systems and business processes was quite significant, with over 130 staff and contractors involved in analysing, testing, and implementing the changes. We are proud that all our new systems and business processes were in place on 1 July 2007 as planned.

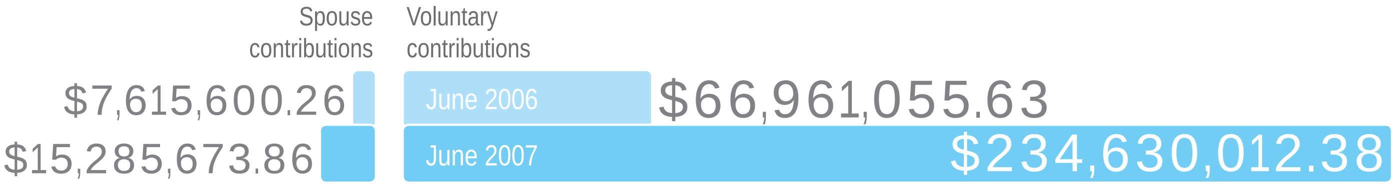
We conducted an extensive campaign to collect tax file numbers (TFNs) from members who had not previously provided us this information, so they were not disadvantaged by the new tax rules. This campaign was very successful – we were able to collect approximately 86% of outstanding TFNs of employed members', and will continue this campaign into the future.

Targeted member communications were designed to inform members about changes relevant to their specific situation. We also ran campaigns to educate all members about the pending changes to superannuation, extended our seminar program, and have continued to provide extensive information about simpler super on our website. Our simpler super communication strategy was a great success with members, and was a major driver of increased contact from members.

As a result of the new simpler super contribution limits, the usually busy end of financial year period saw exceptional growth in both voluntary and spouse contributions. This increase in contributions is especially pronounced when compared to the amount of contributions received during the same period in the previous financial year.

> SIMPLER SUPER REFORMS brought with them THE GREATEST CHANGES to super since 1983

Contributions



1987

The retirement age was lowered to 55, and maximum benefits could be achieved after 42.5 years of membership.

1988

GOSUPER began. The 3% productivity award for Queensland public sector employees and retrenchment benefits were introduced for State Super members.

Fund regulation

Over the past financial year, QSuper has also been working diligently toward the possibility of becoming a regulated fund. We have had to make changes to the QSuper Act and Deed to ensure they catered for the type of business processes and corporate structure the regulators require. This places us in a position to apply for a licence from the Commonwealth Government regulators.

An amendment act was passed in February 2007, and some of the provisions were proclaimed in April and June this year. These provisions mainly relate to QSuper's structure – ensuring we're able to comply with the strict detail of the Commonwealth legislation.

Other changes include the processes for the appointment, removal, and number of members on the Board of Trustees. Our governing rules now specifically state the Board has no less than eight, and no more than thirteen members at any time, which may include an independent trustee.

Contribution splitting

On 1 July 2006 QSuper introduced contribution splitting to its members. In the 2006/2007 financial year QSuper received 315 requests from members wishing to split their contributions with their spouse.

Transfer of the Parliamentary Fund

Members' entitlements in the Parliamentary Fund and the fund's assets were transferred to QSuper on 30 June 2007 and QSuper's governing rules were amended to facilitate this transfer. The transfer was done to simplify Queensland's superannuation management, and this will save ongoing costs. The benefits and entitlements of members in the QSuper Parliamentary accounts have remained the same, with members now able to access standard QSuper features.

ICT restructure

During the year work was done on developing a new structure in our Information and Communication Technology (ICT) business unit.

This is a key step in a rejuvenated approach to information technology throughout QSuper.

The key objective of restructuring our ICT business unit is to enhance the service delivery capability within the business unit. A number of new roles will be created within ICT to ensure QSuper remains competitive and meets contemporary practices and standards within the industry.

1989

The first benefit statement was sent out to members.

1990

QSuper began as the standard Defined Benefit plan. QSuper addressed all the inflexibilities of the earlier schemes.

Our members

QSuper has a diverse membership covering more than 470,000 Queenslanders

Who are our members?

QSuper is proud to be one of Australia's largest superannuation funds – with more than 470,000 members, almost one in nine Queenslanders belongs to QSuper.

QSuper is the fund for current and previous employees of the Queensland State Government. Our membership encompasses a wide range of occupations which serve our community, including teachers, police officers, public servants, and nurses.

However, we also have many members who've opened an account for their spouse, and in this way members' spouses, who may work outside of the Queensland public sector, can also take advantage of the many benefits QSuper membership offers.

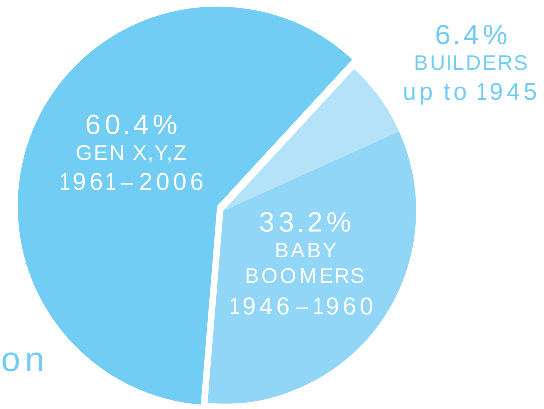
Our membership base is weighted toward female members, with women representing 62% of our total membership. And while generations X, Y, and Z form the largest generational segment of our membership, the baby boomer generation remains the group with the largest share of funds under management.

During 2006/2007, QSuper membership increased 6% to 477,480 members.

For active Defined Benefit accounts the average balance has increased 15% since June 2006.

The number of Allocated Pension accounts increased 27% and Accumulation accounts increased 9%.

For Accumulation accounts, the average salary increased 7% and the average balance increased 21% from June 2006.



MEMBER segmentation breakdown

Account MEMBERSHIP

Accumulation	453,091
Defined Benefits*	92,396
Allocated Pension	9,111
Deferred retirement benefit	44,107

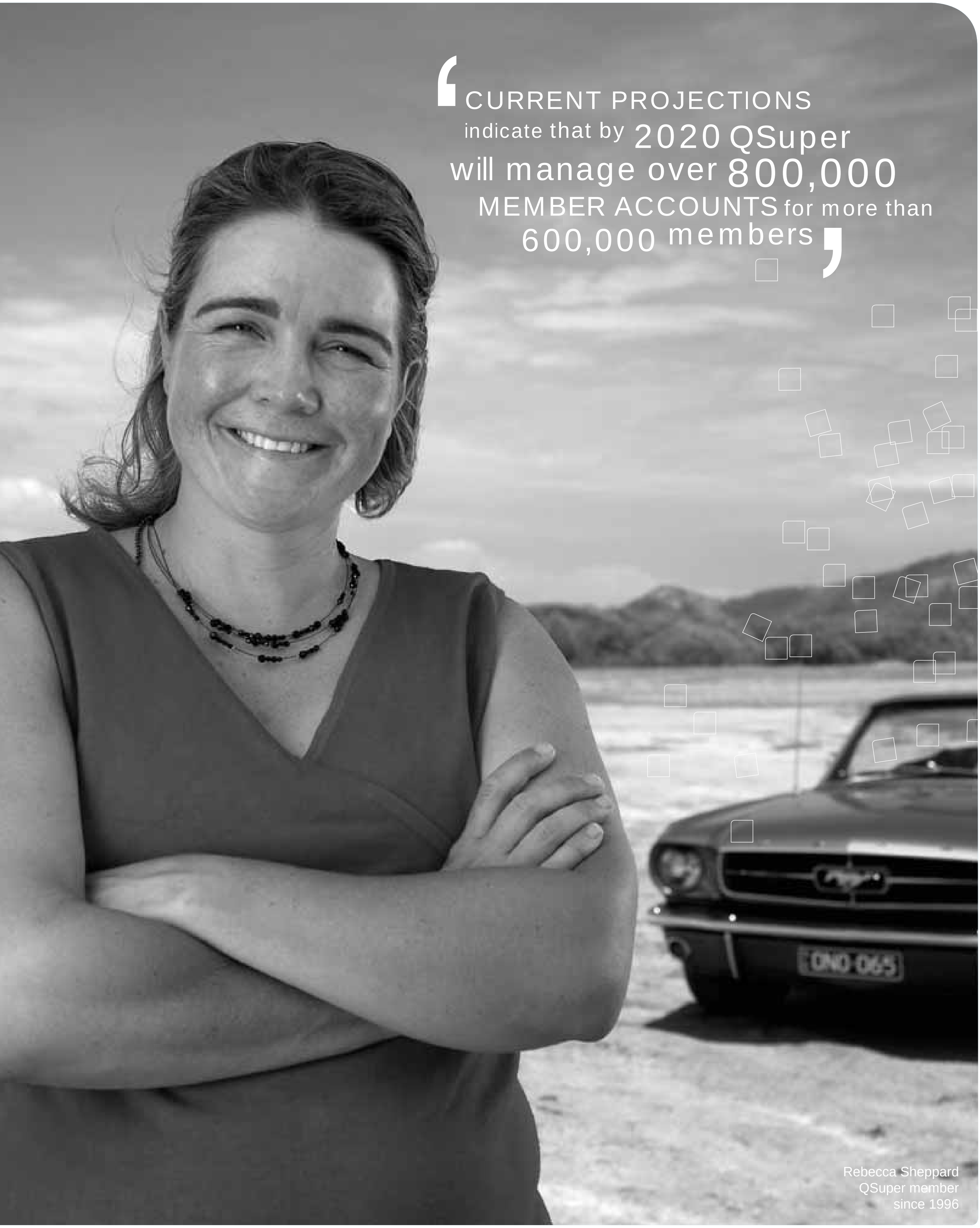
*Includes State and Police accounts

1991

State Super was closed to new members and all existing members were given the opportunity to transfer to QSuper.

1992

The Superannuation Guarantee – which provides universal superannuation for all working Australians – was introduced at 3% or 4%, depending on payroll size.



Rebecca Sheppard
QSuper member
since 1996

1993

Police Super closed and its members were given the option to transfer to QSuper. Commonwealth legislation regulating superannuation was introduced.

1994

Q Invest was established to provide specialised financial advice to QSuper members.

Our services

Because we're a not-for-profit super fund, everything we do is for the benefit of our members

Educating our members

We are proud of the educational tools we provide our members, which give them the information they need to make the best possible choice about their superannuation now and in the future.

Better knowledge

We believe better informed members make better financial decisions, so we continue our commitment to educating our members. To encourage better knowledge we offer our members a range of educational resources:

- a comprehensive seminar program held every year in locations throughout Queensland, covering a range of topics
- a personal financial advice service which is provided by Q Invest*, and supported by QSuper
- general advice and information provided by qualified Information Officers through the Contact Centre
- an award winning website, which features educational tools, calculators, and the most up-to-date industry information
- a variety of relevant publications including newsletters, *Super Scoop*, and a raft of guides and fact sheets.

Financial literacy

We are proud to have formed a working partnership with the Department of Education, Training and the Arts (DETA) to embark upon an exciting financial literacy program. This project is very important to us, because we understand financially literate members will make better decisions about their superannuation and their financial future.

We know financial literacy is about more than just understanding key financial concepts – it's also about being aware of risks, understanding your rights as a consumer, being confident, making personal life choices about financial issues, and knowing where to seek assistance. So far we have presented 21 *Money made simple* financial literacy seminars to over 900 Queensland Government employees and we anticipate attendance could reach 3,000 before our program is complete.

In fact, due to the success of the *Money made simple* seminars and accompanying materials, we are also looking to introduce this general financial literacy seminar into our regular seminar program. This means QSuper will present general financial literacy seminars and educational materials to QSuper members all over Queensland.

More for less

On 1 July 2006 several changes to our Accumulation account's insurance offering were introduced. As part of these changes, we reduced our income protection premiums, increased the death and total and permanent disability benefits, extended the insured age limits beyond 60, and made it possible for Accumulation account members to opt out of their insurance.

In addition, we have recently developed a new claims management initiative, which is aimed at building collaborative relationships with key stakeholders. This initiative will streamline our procedures to make the claims process simpler for both members and employers.

Service makes a difference

QSuper conducted customer satisfaction research in 2007 and found that 32% of QSuper members surveyed had attended a QSuper education event or presentation in the previous twelve months.

In addition, a brand research and readership survey has demonstrated that QSuper members rate themselves more confident about their financial literacy than non-members, and are more likely to take action to improve their financial knowledge. Most importantly, the customer satisfaction research demonstrates that service and delivery are major factors in member satisfaction and retention, and QSuper is leading other superannuation providers in these areas.

QSuper members are happy members

The customer satisfaction survey has shown that QSuper's commitment to low fees, real service, better knowledge, and solid returns makes a significant difference to our members' perception and satisfaction with QSuper.

Planning for their future – Q Invest

Q Invest is jointly owned by QSuper and QIC. It was established in 1994 and is one of the largest financial planning organisations in Queensland. In 2006/2007, Q Invest helped more than 20,000 QSuper members and their partners make important financial decisions about more than $1 billion worth of superannuation assets, other savings, and investments.

> "87% of QSuper Allocated Pensioners have sought FINANCIAL ADVICE from Q Invest"

*Q Invest Limited (Q Invest) ABN 35 063 511 580 AFS License 238274

1995

Fire Super members were given the option to transfer to QSuper.

1996

Superannuation surcharge was introduced. The VPP plan closed and VIP (Voluntary Investment Plan) was launched.

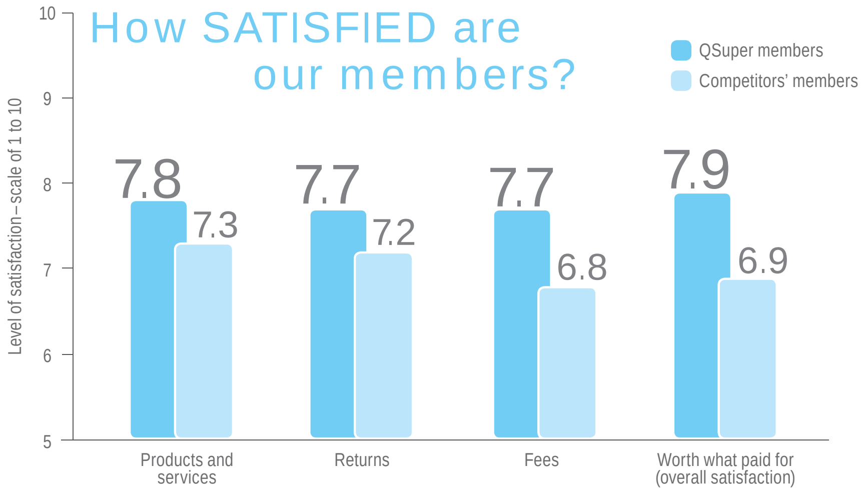
Leon Carrall
QSuper member
since 1997

Last year Q Invest increased its regional presence to better service members across Queensland. During this year additional advisers and support staff were appointed to Q Invest offices in Brisbane and Townsville, and new offices were opened in Toowoomba, the Gold Coast, the Sunshine Coast, Bundaberg, and Rockhampton. This increased Q Invest's regional presence and brought the total number of staff to over one hundred.

In addition to servicing QSuper members in these new locations, Q Invest advisers regularly travel throughout Queensland to meet with members who are unable to visit a Q Invest office.

This year has seen an introduction of the Q Invest co-payment, as the cost of providing financial advice has increased due to wider Commonwealth Government regulations. Under the co-payment, QSuper members pay a small percentage of the fee for the superannuation advice they receive from Q Invest.

This graph demonstrates how our members view our services, compared to how members from other funds perceive the offering of their own super funds.



1997

QSuper's website was launched and funds under management reach $4.8 billion. All schemes were joined under one QSuper Trust Deed.

1998

Investment choice was introduced. Members are able to opt out of automatic insurance, and working members can contribute to age 70.

Our investments

Money talks, and our investment history speaks for itself

QSuper returns

It was another good year for QSuper's Accumulation account – the Balanced option has consistently performed strongly over the long term, and as a result has returned 10.95% per annum on average over the past five years. The Accumulation account Balanced option delivered double digit returns for the fourth year in a row, and QSuper's funds under management reached over $23.3 billion.

Market performance

The 2006/2007 financial year saw the slowing of the US economy, yet the global sharemarkets continued to rise strongly.

But it wasn't all smooth sailing for markets during the year. In late February a 9% fall on the Chinese sharemarket, combined with rising tensions between the US and Iran and concerns about the US housing markets, triggered a significant decline in markets. However, the markets recovered quickly as the US economy performed above expectations.

Innovation

During the year, QSuper became the first superannuation fund in Australia to introduce an alpha-beta separation process to manage its superannuation assets.

Alpha-beta separation is a process where the management of active return (alpha) and market return (beta) are delinked, allowing the search for alpha to be conducted independently from the market asset allocation, thereby improving expected outcomes.

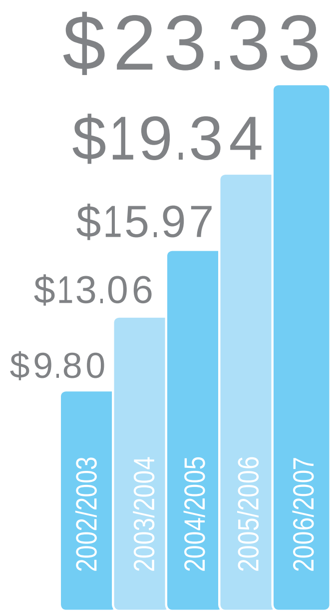
Significant progress was made during the 2006/2007 year in implementing this new management approach.

New asset class

QIC expanded this year into a range of new investment opportunities. This range of investments is called alternatives because they are invested in non-traditional types of assets, including unlisted investments such as infrastructure and private equity, and new asset classes such as hedge funds, commodities, and timber.

Our investment manager QIC has undertaken research that indicates diversifying into these new types of investments will achieve more stable returns. Alternative assets can reduce the likelihood of experiencing a negative return in any one year, while continuing to achieve solid long-term results.

QIC's Infrastructure and Private Equity teams have been successful in acquiring initial assets for the new alternative asset allocations. Some exciting examples include an interest in Thames Water in the United Kingdom, and an interest in a European ports business. Both the Infrastructure and Private Equity teams continue to assess suitable investment opportunities, with the ultimate goal of building a strong, diversified portfolio.



QSuper funds under management (in billions)*

*These figures represent the QIC unit trust balance at 30 June, not net assets

Investment option	Accumulation crediting rate at 30 June 2007	Allocated Pension crediting rate at 30 June 2007
Balanced	14.18%	15.96%
Cash Plus	9.58%	10.97%
Socially Responsible	15.90%	17.76%
High Growth	19.81%	22.75%
Cash	5.22%	6.23%
Fixed Interest	4.82%	5.75%
Australian Shares	27.34%	29.27%
International Shares	21.55%	24.97%

1999

Accounts for spouses were introduced, and QSuper's funds under management reached $6.2 billion.

2000

The contributory accumulation account was introduced as the default option (except for casual employees). The Cash and High Growth investment options were introduced.

Andrea Bakker
QSuper member
since 2005

After-tax management

A further industry-leading initiative was introduced by QSuper in July 2006, which saw the reframing of the member investment choice investment objectives to after fees and tax, which increases the focus on the net return members receive.

After-tax investment management strategies involve choosing and managing investments while being actively mindful of the tax implications. This will minimise the tax payable, thereby improving after-tax returns to our members. A significant amount of work has been undertaken to ensure that QSuper's investment outcomes will be measured and reported on an after-tax basis from July 2007.

Low fees

QSuper's low fee position is one of its key points of differentiation against other superannuation funds. We aim to maintain this point of differentiation while enhancing the services we provide to members. Our scale allows this, with over $23 billion in QSuper plus the substantial holdings in the Queensland Government reserves.

Research commissioned from SuperRatings noted that QSuper was among the funds with the very lowest fees, in those surveyed by SuperRatings.

2006/2007 management expense ratios

A management expense ratio (MER) is the total expense of the Fund (administration, investment management and trusteeship) as a proportion of the Fund's net asset value. These costs are deducted from the relevant unit price before the unit price is declared.

MERs for 2006/2007

Investment option	
Balanced	0.59%
Cash Plus	0.44%
Socially Responsible	0.74%
High Growth	0.66%
Cash	0.32%
Fixed Interest	0.40%
Australian Shares	0.48%
International Shares	0.64%

2001
QSuper's funds under management reached $9.6 billion.

2001
Queensland Ambulance Service members transferred to QSuper.

Our products

Our members have different needs at different times of their life, so we have products to cater for everyone

We understand that our members' needs change as they move through their working life and into retirement. That's why we offer a range of different account types to cater for each members' risk level, insurance, or retirement income needs. As the priorities and superannuation requirements of our membership change, we continue to work diligently to ensure our offering caters for each member, regardless of their stage in life.

Product growth

The growth of accumulation funds in comparison to defined benefit funds has steadily continued. This is because the Accumulation account is the default account for new members, and also because retiring members often convert their Defined Benefit, State, or Police accounts to an Accumulation account.

A strong growth in funds under management, which has been driven by strong employer and member contributions, the Commonwealth Government co-contribution, and favourable investment returns, significantly increased the long-term projections for QSuper's funds under management. These projections indicate strong growth is expected to continue.

'We offer a range of different account types, to cater for each member's RISK LEVEL, INSURANCE, or INCOME NEEDS'

Accumulation account

A QSuper Accumulation account caters for members both during and after their employment with the State Government, and also for their spouses. The Accumulation account is the automatic option for new employees of all core Queensland public sector agencies, and is also available to non-core agencies through individual employer arrangements.

An Accumulation account lets members actively participate in the growth of their superannuation by selecting investments that suit their attitude to risk and return. Our default investment option is the Balanced option, and members' funds are directed to this option when we do not receive any specific investment direction from a member.

Accumulation account	2005/2006	2006/2007
Membership	420,892	453,091
Income protection benefits paid	1,092	1,297
Rollovers to QSuper	25,971	30,544
Members making voluntary contributions	27,796	37,858
Accumulation accounts opened via spouse deposits	1,424	1,796
Income Contribution Investment Miscellaneous Total	 $2,609.2m $1,587.9m $0.3m $4,197.4m	 $3,225.3m $1,866.1m $0.3m $5,091.7m
Expenditure	$1,525.5m	$1,596.8m
Balance of accounts*	$11,071.6m	$14,566.5m

*These amounts include some reserves held in the Consolidated Fund

2002

Family law legislation changes allow splitting of superannuation accounts upon marriage breakdown.

2002

The Superannuation Guarantee rate increased to 9%.

June Woodward
QSuper member
since 1994

Defined Benefit account

A QSuper Defined Benefit account provides accrued and insured benefits based on a member's salary, contribution rate, and length of membership. Most new and existing employees of the State Government have the option of transferring to a Defined Benefit account.

Employers of Defined Benefit account members contribute at a rate that, when combined with member contributions and investment returns, ensures there is enough money to pay members' benefits when they're needed. Employer contributions are not paid directly into individual member accounts – instead they are paid into a pool held in the Queensland Government's Consolidated Fund, which is used to pay the benefits of Defined Benefit members as required.

Defined Benefit account	2005/2006	2006/2007
Membership	142,240	136,475
Benefit payments		
Age retirement	3,297	3,349
Permanent disability	539	483
Resignation	6,641	4,154
Retrenchment	629	383
Total	11,106	8,369
Income protection benefits paid	1,744	1,666
Rollovers to QSuper	2,575	2,393
Members making voluntary contributions to a QSuper Accumulation account	31,904	34,956
Income		
Contribution	$553.9m	$600.0m
Investment	$1,173.0m	$1,002.3m
Miscellaneous	$0.3m	$0.5m
Total	$1,727.2m	$1,602.8m
Expenditure	$1,154.7m	$1,727.2m
Balance of accounts	$8,504.0m	$8,379.6m
Crediting rate	12.87%	14.18%

2002

State legislation recognises same sex relationships.

2003

The Balanced with Reserves option was closed and members were transferred to other investment options. The Commonwealth Government co-contribution is introduced.

Our products
(continued)

State and Police accounts

QSuper State and Police accounts are defined benefit accounts which were closed to new members in 1991 and 1993 respectively. Because there are no new entrants into these accounts, membership numbers continue to diminish.

In a State or Police account, a member's employer contributes at a rate that, when combined with member contributions and investment returns, ensures there's enough money to pay members' benefits when they're needed. Employer contributions are not paid directly into individual member accounts – instead they are paid into a pool of money which is used to pay the benefits of State and Police members as required.

State and Police accounts	2005/2006	2006/2007
Membership	1,933	1,750
Benefit payments		
Age retirement	119	83
Ill-health retirement	1	2
Death	1	1
Resignation	8	7
Retrenchment	9	9
Total	138	102
Income protection benefits paid	40	34
Rollovers to QSuper	Included in Defined Benefit account	
Members making voluntary contributions to a QSuper Accumulation account	Included in Accumulation account	
Income	Included in Defined Benefit account	
Expenditure	Included in Defined Benefit account	
Balance of accounts	Included in Defined Benefit account	
Crediting rate	Resignation 12.47%	Resignation 13.78%
	Preserved 12.87%	Preserved 14.18%

Allocated Pension accounts

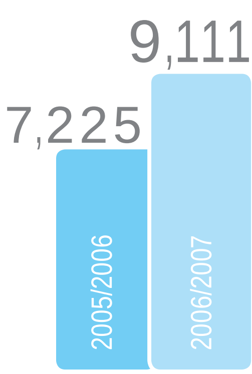
An Allocated Pension account allows a member to invest their QSuper benefit in an accumulation-style account, where they can earn a return linked to their selected investment option while drawing a regular pension. The pension is paid until the member's investment, plus investment returns, are exhausted.

Transition to retirement

Members who are interested in utilising a transition to retirement strategy can do so by opening, and drawing an income from, a QSuper Allocated Pension account.

The transition to retirement option was implemented by QSuper in July 2006, and we have had 537 members utilise this new strategy. These members and their balances are included in the information for Allocated Pension accounts.

Allocated Pension accounts	2005/2006	2006/2007
Membership	7,225	9,111
New accounts opened	1,833	2,054
Income		
Contribution	$490.1m	$649.4m
Investment	$217.1m	$310.9m
Total	$707.2m	$960.3m
Expenditure	$160.1m	$261.7m
Balance of accounts	$1,834.6m	$2,533.2m



Allocated Pension accounts have grown significantly in the past financial year

2004
QSuper members are able to view their accounts online.

2004
The Financial Services Reform was introduced for the financial services sector, including superannuation providers.

Ritu Pathak
QSuper member
since 2000

2005

An additional four investment options were introduced – Socially Responsible, Fixed Interest, Australian Shares, and International Shares.

2005

QSuper's funds under management reached $16 billion.

Our employers

Our Queensland Government employers play a key role in helping our members understand their super

Working together

Employers play a very important role in ensuring our members are able to make the most of their super. And of course, our employers are QSuper members too. We currently have 189 payroll units that contribute to QSuper, and most of our employers submit their contribution data online through our electronic data collection system.

We stay in touch with our employers through our quarterly employer newsletter, *Superline*, and our annual *Employer update* seminar. This allows us to ensure we are working well with our employers to get the best results for our members.

Straightforward super

We have a dedicated employer help desk to assist our employers with their superannuation processes, returns, and queries. During the year we worked extensively to build upon this already strong service. The result of these innovations is a new Employer Services unit dedicated to helping employers with processing their returns and handling technical enquiries. This change will improve the services we offer employers.

9 little numbers – 1 big difference

In May 2007 QSuper launched a tax file number (TFN) collection campaign which specifically targeted QSuper employers. This campaign was designed to respond to the pending superannuation tax changes which require a super fund to hold a member's tax file number on record.

Employers worked with us in many ways, assisting with mailouts, email broadcasts, and outbound calls from call centres – all striving to collect as many TFNs as possible. The response from our employers was tremendous, with over 86% of outstanding TFNs collected by September 2007. This is a fantastic result, and saved over 20,000 QSuper members paying more tax than necessary on their super.

Employer update seminars

QSuper runs an *Employer update* seminar specially designed to meet the needs of managers and key payroll and HR staff. It's a great opportunity for our employers to catch up with the important changes to QSuper and the superannuation industry that affect our members, and their staff.

More than 148 employer representatives from 70 Departments from in and around Brisbane attended the *2006 Employer update* seminar, and the information we gathered from our online survey and attendees on the day suggests that, once again, this event was a success.

Employers online

The employer website is an easy to use resource that provides straightforward and relevant information to employers about QSuper. The employer website includes an online manual with helpful tips about contributions, insurance, and salary and allowance information. There is also easy access to commonly requested forms, frequently asked questions, and instructions for submitting their employees' superannuation.

Our largest EMPLOYERS

Department of Education, Training and the Arts 81,750

Department of Health 68,427

Queensland Police 13,943

2005

Surcharge was abolished, but existing debts remain.

2006

Contribution splitting and transition to retirement became available to QSuper members. The website now includes educational tools and calculators.

Our people

It's our staff that make the QSuper difference

The best staff

At QSuper we're committed to maintaining a professional and highly-trained workforce. To enable this, staff have access to a variety of training and development courses designed to improve their knowledge, skills, and abilities.

More opportunities

This year, many staff have undertaken a Certificate IV in Business – Frontline Management. In addition, we work closely with the Association of Superannuation Funds of Australia to provide extensive superannuation specific training to staff, with subjects and courses ranging from Certificate to Advanced Diploma levels.

Due to our extended training program, telephone response staff in our Contact Centre are compliant with the Australian Securities and Investments Commission Policy Statement 146 requirements for providing general superannuation advice.

QSuper staff have access to a number of external training courses which cover a range of specialities within our different business units. In conjunction with Queensland Treasury, we run mentoring programs to help develop staff as their careers progress, and have developed a specific leadership development course which is tailored for our management teams.

A helping hand

We also encourage our staff to develop their skills, knowledge, and abilities through further education outside the training opportunities we can provide them in house. We support the Study and Research Assistance Scheme which allows employees to receive some financial assistance in funding further education and study leave, and help ensures our staff are being the best they can be.

Finding a balance

At QSuper we believe in flexible work practices and working hours for all staff, and make a concerted effort to help QSuper employees find a suitable work/life balance. In addition to usual recreation leave, special leave, long service leave and sick leave, we also offer staff the ablility to purchase additional recreation leave.

> In July 2007
> QSuper employed over 400 people,
> with approximately 9% of staff accessing
> FAMILY FRIENDLY
> ARRANGEMENTS
> by working part-time

2007

QSuper Limited is established as part of considerations toward becoming a regulated fund. QSuper's funds under management reach $23 billion.

2007

Simpler super legislation became effective, resulting in an overhaul of the superannuation system, including tax-free benefits for people over 60.

Appendix

to the 2006/2007 annual report of the QSuper Board of Trustees
and the Government Superannuation Office


Maya Grimes
QSuper member
since 1991
Richard Grimes
QSuper member
since 1961

Appendix

Corporate governance

The Board of Trustees of QSuper (the Board) and the management of QSuper are committed to high standards of corporate governance. The governance of QSuper is driven by the Board's desire to act in good faith, with foresight, and in the best interests of members and their dependents.

Board policies

Board members must act in accordance with the covenants of section 52 of the *Superannuation Industry (Supervision) Act 1993*.

In accordance with industry standards and regulatory requirements, the Board has introduced a range of policies which will guide QSuper's corporate governance practices, including:

- the development of a Fit and Proper Policy, which establishes the standards of fitness and propriety required of Board members and other Responsible Officers. This policy stipulates the minimum competencies required, the assessment and confirmation procedures, as well as the ongoing training requirements
- an established Code of Conduct, which guides the ethical and behavioural expectations of the Board
- the development of a Conflict of Interest Policy, which includes procedures for the Board to identify and resolve any conflicts of interest. Board members must disclose potential conflicts of interests and may be excluded from participating in discussions on matters where a potential conflict exists.

Composition and appointment of the Board

Established under the *Superannuation (State Public Sector) Act 1990* (QSuper Act), in 2006/2007 the QSuper Board consisted of ten appointed trustees, including the Chairman. Employer and member representative entities are equally represented on the Board.

Currently, the employer representatives are nominated by the Queensland Government. With regard to the five member representatives, one is nominated by the Australian Workers' Union, Queensland, and the remainder are nominated by the Queensland Council of Unions. The Treasurer, as Minister, appoints a trustee as Chairperson following consultation with the QSuper Board. Trustees serve on the QSuper Board for a term of three years, after which they may be nominated for re-appointment.

Following the recent enactment of the *Superannuation (State Public Sector) Amendment Regulation No.1 2007*, the prescribed number of trustees has been increased to twelve, and this will occur from 1 December 2007.

Remuneration of the Board

During 2006/2007, the Board was remunerated in accordance with the Department of Industrial Relations Public Sector directive *Remuneration of Part-time Chairs and Members of Government Boards, Committees and Statutory Authorities*. The directive prescribes the remuneration rates for both the Chair and Board members. The Board members who are also employees of the government are not remunerated for their trustee duties. Details of the directive can be located from www.psier.qld.gov.au/policies.

Queensland Government nominated representatives

Mr Gerard Bradley, Chairman

B.Comm, postgrad Dip Adv Acc, CPA, FCA, FAICD, FAIN

Under Treasurer of Queensland, Under Secretary of Queensland, and Chairman of the Board

Appointed August 1998

Experience:

- employed in the Queensland and South Australian Treasury departments for the past 27 years
- Director of Queensland Treasury Holdings Proprietary Limited
- Under Secretary of Queensland and Deputy Chair of Queensland Treasury Corporation
- Chairman of the QSuper Human Resources Committee.

(Deputy – Mr Tim Spencer, Deputy Under Treasurer of Queensland)

Ms Linda Apelt

MEd, MAICD

Director-General, Department of Communities and Disability Services Queensland

Appointed December 2001

Experience:

- former Director-General of the Department of Housing
- member of the Board of the Australian Institute of Health and Welfare (AIHW) and Chair of the AIHW Audit and Finance Committee
- Adjunct Professor in the Faculty of Social and Behavioural Sciences at the University of Queensland
- Member of the QSuper Accommodation Committee.

(Deputy – Mr Wayne Cannon, Queensland State Actuary)

Ms Terri Hamilton

LLB, DFP, MAICD

Director, Terri Hamilton Financial Consulting Services

Appointed June 2000

Experience:

- extensive senior management and consultancy experience in the financial services industry
- Director of Ergon Energy Corporation Limited
- Director of Queensland Teachers' Union Health Fund Limited
- member ASIC Regional Liaison Committee (Qld)
- former Director of the Association of Superannuation Funds of Australia (ASFA)
- member of the QSuper Audit and Compliance Committee, Licensing Committee, and Accommodation Committee.

Mr Tony Hawkins

B.Com, DipFinMan, FCPA

Chief Executive Officer, WorkCover Queensland

Appointed December 2001

Experience:

- Chief Executive Officer of WorkCover Queensland for the past nine years
- 13 years insurance experience with the AXA Group
- 14 years mining experience with the CSR Group
- member of the Queensland Workplace Health and Safety Board
- member of the QSuper Insurance Claims Management Committee and Human Resources Committee.

Mr John Carpendale

BA, FFin, FASFA, GAICD, JP (C.Dec)

Former superannuation industry executive

Appointed June 2006

Experience:

- 38 years experience with QSuper, including five years as Deputy Executive Director of the Government Superannuation Office
- former Manager Operations, Deputy Executive Officer, and Complaints Officer of the Queensland Local Government Superannuation Board
- Director of Summerland Credit Union Limited and First Pacific Financial Solutions
- Chairman of the QSuper Licensing Committee, member of the Marketing and Communication Committee, and Accommodation Committee.

Appendix

Member Entity nominated representatives

Mr Chris Barrett
BLST
Assistant General Secretary,
Queensland Council of Unions
Appointed April 2001

Experience:
- full-time union official since 1990
- Director of Q-Comp
- former Member Director of Host-Plus Proprietary Limited as Trustee for HostPlus from 1991 to 1995 and in 2000
- member of the Training and Employment Recognition Council, and the Queensland Heritage Council
- Chairman of the QSuper Insurance Claims Management Committee, member of the Audit and Compliance Committee, Human Resource Committee, and Licensing Committee.

(Deputy – Ms Grace Grace, General Secretary, Queensland Council of Unions)

Mrs Karen Peut, PSM
MAICD
Executive Director
Department of Main Roads
Appointed May 1985

Experience:
- former Director of Queensland Motorways Limited
- over 40 years experience with the Department of Main Roads
- life member of the Queensland Public Sector Union
- delegate of the Combined Public Sector Unions' Superannuation Committee
- member of the QSuper Insurance Claims Management Committee.

(Deputy – Mr Alex Scott, General Secretary, Queensland Public Sector Union)

Mr Garry Ryan
Queensland Branch President and Southern District Secretary, The Australian Workers' Union of Employees
Appointed June 2002

Experience:
- member of the Australian Workers' Union National Executive, and Queensland Branch Executive Committees since 1988
- Director of AustSafe Proprietary Limited as a Trustee for the AustSafe Superannuation Board
- member of the Queensland Workplace Health and Safety Board, and Workers Compensation Regulatory Authority (Q-COMP)
- member of the QSuper Insurance Claims Management Committee, Human Resource Committee, and Accommodation Committee.

(Deputy – Mr Tom Jeffers, Vice President, Australian Workers' Union of Employees, Queensland)

Mr Steve Ryan
President, Queensland Teachers' Union
Appointed June 1994

Experience:
- Executive Member of the Queensland Teachers' Union (QTU) since 1993 and a Senior Officer of the Union since 2000
- Director of Q Invest Limited
- Chairman of the QSuper Marketing and Communications Committee, and member of the Licensing Committee.

(Deputy – Mr Jeff Backen, Assistant Secretary, Queensland Teachers' Union)

Mr Gary Wilkinson
General President,
Queensland Police Union
Appointed August 1997

Experience:
- member of the Board of the Police Federation of Australia
- General President of the Queensland Police Union of Employees.

(Deputy – Mr Merv Bainbridge, Deputy representing the Queensland Police Union of Employees).

Board and management responsibilities

The Board meets on a monthly basis. Throughout the course of the 2006/2007 financial year, twelve meetings were held. In addition, the Board holds an annual strategic planning workshop. This year the workshop was held in Sydney, which created an opportunity for the Board to meet with Sydney-based fund managers and industry leaders.

The Board delegates the day-to-day administration of QSuper to the Chief Executive Officer and Executive Committee within QSuper. However, the Board retains responsibility for the operation of QSuper and receives regular reports from QSuper management. The Board has procedures in place to ensure that the Executive Committee is appropriately qualified and experienced to discharge their responsibilities.

The Secretary to the Board is the QSuper Chief Financial Officer.

The Executive Committee and QSuper have established policies and procedures which ensure that the Board, management, and staff, meet high standards of professionalism and integrity, and adhere to industry standards and legal requirements. These include a commitment to providing continuing professional educational opportunities, documenting processes and procedures, and formulating, progressing, and promoting a comprehensive strategic plan.

Board committees

The Board may establish committees as it considers necessary, or appropriate, to assist it in carrying out its responsibilities. Each committee has a charter setting out the matters relevant to its composition, responsibilities, and administration. While committees have specific membership, all Trustees are able to attend. During 2006/2007 the following committees were constituted by the Board:

- Audit and Compliance Committee
- Marketing and Communication Committee
- Insurance Claims Management Committee
- Human Resources Committee
- Licensing Committee
- Accommodation Committee.

Audit and Compliance Committee

Members:

- Mr Walter Ivessa, Assistant Under Treasurer (Chair)
- Ms Terri Hamilton
- Mr Chris Barrett.

This committee performs a range of important functions and assists the Board and the Under Treasurer of Queensland in discharging their governance and administrative responsibilities. The committee's role includes:

- reviewing the management of risk, including overseeing the QSuper risk register and ensuring appropriate internal controls are in place to address those risks
- monitoring the compliance of QSuper with legislative requirements
- reviewing internal and external audit findings and monitoring the implementation of audit recommendations
- reviewing financial statements.

Marketing and Communication Committee

Members:

- Mr Steve Ryan (Chair)
- Mr Merv Bainbridge (Deputy of Mr Gary Wilkinson)
- Mr John Carpendale.

The committee reviews marketing strategies and timeframes for their implementation, as well as QSuper's member communication and publications.

Insurance Claims Management Committee

Members:

- Mr Chris Barrett (Chair)
- Mr Merv Bainbridge (Deputy of Mr Gary Wilkinson)
- Mr Tony Hawkins
- Mrs Karen Peut
- Mr Garry Ryan.

The committee oversees the insurance products of QSuper and considers new initiatives and the strategic direction of claims management. It is a forum for discussion on claims management practices, initiatives, and reporting.

Appendix

Human Resources Committee

Members:

- Mr Gerard Bradley (Chair)
- Mr Chris Barrett
- Mr Tony Hawkins
- Mr Garry Ryan.

The committee considers matters relating to QSuper's human resource policies including:

- remuneration relating to staff employed by QSuper Limited
- recruitment and selection
- conditions of employment
- training and development
- termination and succession planning.

Licensing Committee

Members:

- Mr John Carpendale (Chair)
- Mr Chris Barrett
- Ms Terri Hamilton
- Mr Steve Ryan.

The committee provides assistance to the Board and QSuper management, to discharge their corporate governance and oversight responsibilities when considering the issue of QSuper becoming a regulated fund.

Accommodation Committee

Members:

- Ms Terri Hamilton (Chair)
- Mr John Carpendale
- Ms Linda Apelt
- Mr Garry Ryan.

The committee was created to oversee the development of the fitout proposals for the new QSuper premises at Central Plaza III.

Board meeting attendance record

Trustee	Board meetings		Audit and Compliance Committee		Marketing and Communication Committee		Insurance Claims Management Committee		Human Resources Committee		Licensing Committee		Accommodation Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Gerard Bradley	12	9	–	–	–	–	–	–	3	3	–	–	–	–
Terri Hamilton	12	11	5	5	–	–	–	–	–	–	9	8	2	2
Linda Apelt	12	9	–	–	–	–	–	–	–	–	–	–	2	2
Tony Hawkins	12	12	–	–	–	–	1	1	3	3	–	–	–	–
Steve Ryan	12	12	–	–	1	1	–	–	–	–	9	8	–	–
Karen Peut	12	12	–	–	–	–	1	1	–	–	–	–	–	–
Chris Barrett	12	12	5	4	–	–	1	1	3	3	9	9	–	–
Garry Ryan	12	6	–	–	–	–	1	1	3	3	–	–	2	1
Gary Wilkinson*	12	12	–	–	1	1	1	1	–	–	–	–	–	–
John Carpendale	12	12	–	–	1	1	–	–	–	–	9	9	2	2

*Gary Wilkinson's deputy, Merv Bainbridge, attends Board meetings.

QSuper Executive Committee

Chaired by the Chief Executive Officer, the Executive Committee consists of the Chief Financial Officer, Chief Operating Officer, and Chief Strategy Officer. The committee is responsible for addressing strategic corporate issues and providing assistance and advice to the Chief Executive Officer and the Board.

The Executive Committee is supported by three key decision making committees, which meet monthly:

Product Innovation and Management Committee:

- This committee tracks product performance and the execution of the strategic plan, and reports to the Chief Strategy Officer. It consists primarily of representatives from the strategy, service delivery, and change management areas of the business – Fund Development, Investments, and Member Services. Other areas of the office are represented on a needs basis.

Service Delivery Committee:

- This committee tracks service delivery and reports to the Chief Operating Officer. It consists primarily of representatives from the service delivery and support areas of the business – Operations, Member Services, Insurance Management, ICT, and Technical Services. Other areas of the office are represented on a needs basis.

Project Execution Committee:

- This committee tracks project execution and reports to the Chief Financial Officer. It consists of representatives from the projects, technology, service delivery and strategy areas of the business – ICT, Finance, and Operations. Other areas of the office are represented on a needs basis.

Risk management framework

As a complex superannuation fund with significant funds under management, it is imperative that QSuper has a comprehensive and rigorous risk management framework in place. The Board takes its risk management responsibilities seriously, and has devoted considerable effort to continually enhancing and improving this framework. As such, the Board has significantly upgraded QSuper's risk management framework during 2006/2007 to be at the leading edge of the industry and consistent with best practice. The framework enables QSuper to operate prudently and protect the interests of its members.

During 2006/2007, the major risks identified by the Board were incorporated into a combined Risk Management Strategy and Risk Management Plan, which is a formal document forming the centrepiece of the Board's risk management framework. The Board is ultimately responsible for the Risk Management Strategy and Risk Management Plan and oversees the program through regular reporting to its Audit and Compliance Committee.

As outlined previously, QSuper is working toward becoming a regulated fund. The Risk Management Strategy and Risk Management Plan are key components in obtaining a licence from the Australian Prudential Regulation Authority (APRA). The Strategy and Plan are audited each year and are the central focus of APRA's prudential reviews.

The Strategy and Plan are consistent with the Australian standard on risk management AS/NZS 4360:2004 and are based on the principles of:

- identifying, assessing, evaluating, and mitigating risks
- aligning risk management with the corporate governance structure and business strategy
- implementing and operating a risk monitoring system that results in better informed decisions.

The Risk Management Plan consists of the following four review systems:

- internal risk management program
- compliance management program
- internal audit program
- external audit.

1. Internal risk management program

The Board holds an annual risk workshop during which existing and emerging risks are considered and rated in terms of materiality. At this time, the Board may stipulate certain mitigations be implemented to maintain or reduce the final rating of the risk.

A workshop was held in February 2007 and the Board identified the following as its key risk categories:

- legal, compliance and governance
- investment
- fund and product design
- operational and financial
- outsourcing.

The risk workshop and the development of the Board's risk management framework have been undertaken in co-operation with the fund's internal auditors, who are experienced in risk management and the implementation of best practice in the superannuation industry.

On a regular basis, responsible managers are required to certify that they have initiated appropriate controls to mitigate the above risks, and that the controls have operated effectively.

Consistent with good governance practice and accountability, reports on these certifications are then presented to the Audit and Compliance Committee, which assesses whether the existing control structure is adequate, or whether additional action needs to be undertaken.

The Committee also monitors any incidents that may arise and issues identified by internal and external auditors. The Audit and Compliance Committee also oversees the implementation of audit recommendations.

Should QSuper become commonwealth regulated, any breach of the Risk Management Strategy and Risk Management Plan must be reported to APRA within 14 days of becoming aware that the breach occurred.

2. Compliance management program

As with the risk management framework, the Board significantly upgraded the compliance management program during 2006/2007. This was done to create a compliance model that would meet the expectations of regulators (should QSuper become commonwealth regulated), as well as being consistent with industry best practice.

This model involves more frequent monitoring of compliance obligations and attestation of compliance by responsible managers. Exception reporting is provided to the Audit and Compliance Committee and Board, as outlined in the various policies governing operation of the risk framework.

Appendix

The introduction of the simpler super changes, which took effect from 1 July 2007, brought with them the most significant change ever in the compliance landscape for the superannuation industry. As a result, during 2006/2007, significant effort was invested in ensuring these changes were successfully introduced. In addition, upgraded internal compliance resources were developed as references for staff.

During 2006/2007, as well as overseeing the introduction of the simpler super legislation, compliance reviews concentrated on various aspects of member disclosure, including member benefit statements, annual reports, exit reporting and member guides, as well as financial services requirements, in preparation for becoming a regulated fund.

3. Internal audit program

Following the risk workshop, the internal auditors determine their internal audit plan, which concentrates on the risks associated with QSuper's core business processes. The intention is to minimise overlap between the coverage of the internal audit program and the coverage of the internal risk and compliance program. During 2006/2007, audits were conducted in the following areas:

- Pensions
- Contributions
- Corporate Administration and Human Resources
- Benefit statements
- Information, Communication and Technology
- Finance – Fund financial reporting
- Finance – Corporate finance (accounting, taxation, accounts recoverable, accounts payable)
- Claims and benefits
- Member Services
- Insurance Management
- Cashflow management

The recommendations of the internal auditors have been, or are in the process of being implemented.

4. External Audit – Queensland Audit Office (QAO)

The external auditor, QAO, audits all QSuper entity financial statements. QAO also reviews various aspects of the work performed by the internal auditor, in addition to reviewing the QSuper internal risk and compliance programs. The QAO makes recommendations as to issues warranting further attention. Any such recommendations are considered and acted upon, following assessment by QSuper management, the Audit and Compliance Committee, and the Board.

Fraud and ethics

QSuper has in place a Fraud and Corruption Control Policy which was developed with the assistance of the Crime and Misconduct Commission. The policy is consistent with the Australian standard on *Fraud and Corruption Control AS8001*. The policy establishes:

- a framework for the investigation and reporting of incidents assisting in the continuous development of a strong ethical corporate culture
- accountability structures within QSuper
- expectations of staff in terms of their conduct.

QSuper's culture promotes responsible and ethical behaviour from all staff. Periodic training maintains staff awareness of the importance of ethics. A program of ongoing monitoring aims to ensure any risks are identified and remedied quickly. Employees who have concerns with ethical issues or potential fraud are encouraged to report these to the internal Ethics and Fraud Control Officer.

Whistleblower protection

The QSuper Fraud and Corruption Control Policy protects whistleblowers from reprisal and serves to encourage the responsible reporting of legitimate concerns. The Crime and Misconduct Commission also operates a whistleblower support program. These protections are also located in the *Whistleblowers Protection Act 1994*.

Corporate policies

Privacy

QSuper has in place a privacy management plan, which incorporates the eleven Information privacy principles contained in the *Queensland Government's Information Standard 42*, which in turn is based on the *Commonwealth Government's Privacy Act 1988*. This plan is available by contacting QSuper or accessing the QSuper website at qsuper.qld.gov.au.

QSuper may disclose personal information to third parties in the following circumstances:

- where consent to the disclosure is obtained
- where the law requires disclosure
- if disclosure is necessary to provide products and services.

As an example, QSuper members have access to financial planning services from Q Invest Limited, which is an organisation jointly owned by the QSuper Board of Trustees and QIC. Where a member chooses to utilise Q Invest Limited, QSuper may pass personal information to Q Invest Limited to facilitate service provision.

Freedom of information

Members have a right to access and amend their personal information held by QSuper, as provided by the *Freedom of Information Act 1992 (Qld)*. Other parties can also lodge a request including individuals, media, solicitors, union representatives, and politicians. Such requests may only deal with information relating to themselves or their client, or general fund information. Requests for personal information are free, and are normally handled within 14 days. Other requests generally attract a fee of $36.

In some circumstances further charges may apply. Requests for information may be made in two ways:

1. A request for personal information relating to a person's QSuper membership can be handled under QSuper's administrative release process so long as the application is in writing and signed by the individual requesting their personal information.
2. Other requests are managed under the *Freedom of Information Act* by completing a *Queensland Treasury Freedom of Information* application form, or writing a letter requesting the information.

Requests for personal information under QSuper's administrative release scheme can be addressed to:

Administrative Release of Information
QSuper
GPO Box 200
Brisbane Qld 4001
Ph: 1300 360 750

All other information requests should be sent to:

The Freedom of Information Unit
Queensland Treasury
GPO Box 611
Brisbane Qld 4001
Ph: (07) 3224 4171

Requests for personal information under QSuper's administrative release scheme are generally handled within 14 days.

- Requests lodged under the *Freedom of Information Act* must be officially acknowledged within 14 days of receipt and completed within 45 days of receipt.
- In instances where information requested was produced prior to 19 November 1987, or where consultation needs to be undertaken with third parties, the FOI Act provides for the requests to be completed within 60 days.

Major service providers

Administrator
Government Superannuation Office
Queensland Treasury
81 George Street
Brisbane Qld 4000

Investment manager and investment consultant
QIC
Level 6, Central Plaza Two
66 Eagle Street
Brisbane Qld 4000

Financial planning
Q Invest Limited
Level 8, Central Plaza Two
66 Eagle Street
Brisbane Qld 4000

Internal auditor
KPMG
Level 16, Riparian Plaza
71 Eagle Street
Brisbane Qld 4000

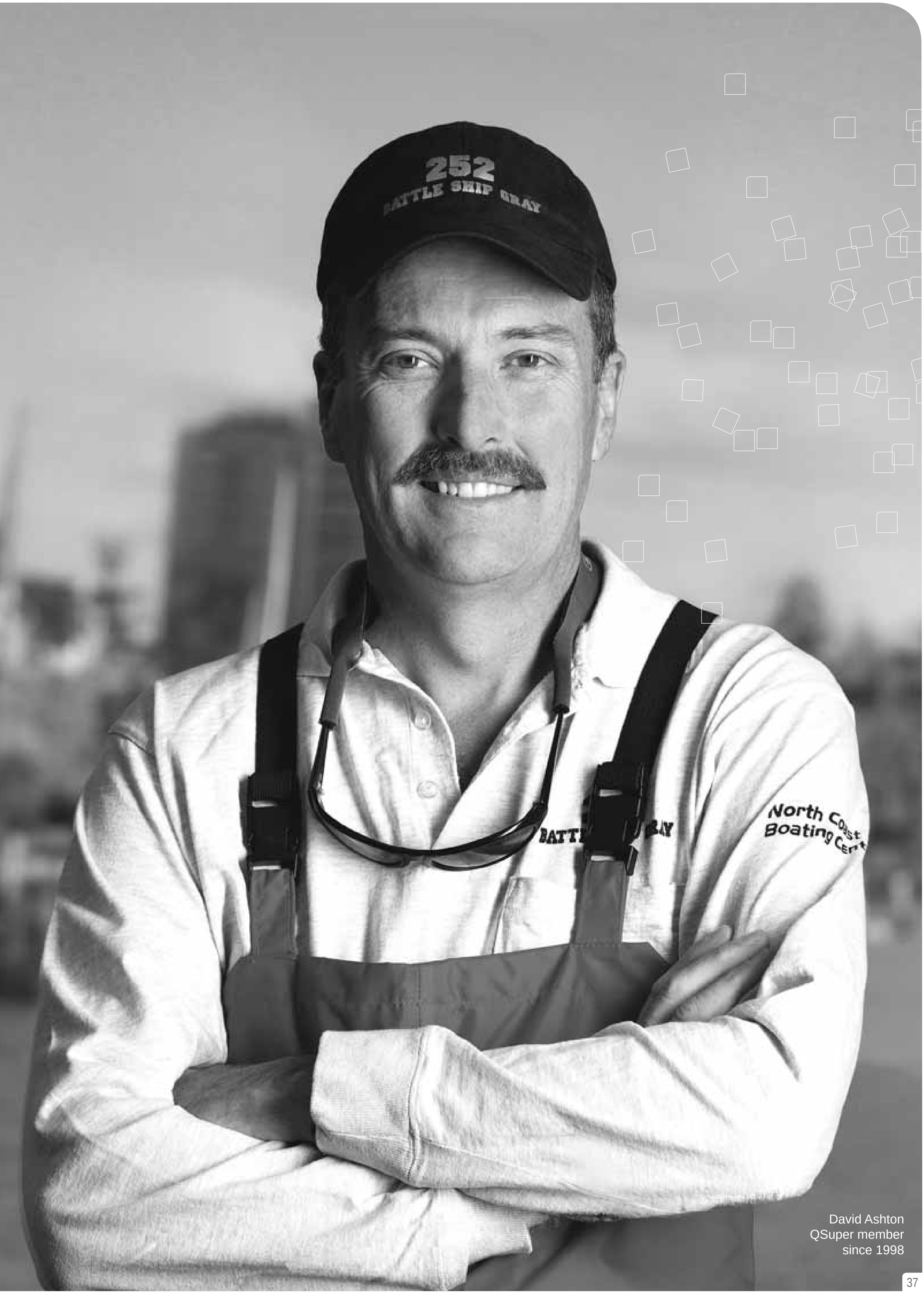
External auditor
Queensland Audit Office
Level 11, Central Plaza One
345 Queen Street
Brisbane Qld 4000

Actuary
State Actuary
Level 2
33 Charlotte Street
Brisbane Qld 4000

Investment consultant
Watson Wyatt Australia Pty Limited
Level 4
1 Collins Street
Melbourne Vic 3000

State Public Sector Superannuation Fund

General purpose financial statements for the year ended 30 June 2007



David Ashton
QSuper member
since 1998

State Public Sector Superannuation Fund

Statement of net assets

as at 30 June 2007

	Notes	2007 $'000	2006 $'000
ASSETS			
Cash	1(c)	33,734	19,852
Receivables			
Employer contributions receivable	1(d), 1(l)	4,008	126
Member contributions receivable	1(d), 1(l)	693	8
GST receivable	1(d), 1(e)	1,398	978
Interest receivable	1(d)	466	226
Sundry receivables and prepayments	1(d)	2,317	1,871
		8,882	3,209
Investments			
Investment in unit trusts	1(f), 4	23,334,499	19,336,799
Investment in Q Invest Limited	1(f), 5	2,800	2,800
Investment in QSuper Limited	1(f), 6	10,000	–
		23,347,299	19,339,599
TOTAL ASSETS		23,389,915	19,362,660
LIABILITIES			
Payables			
Benefits payable	1(g)	11,539	8,372
Administration and investment management fees payable	1(h), 15	11,782	17,411
Sundry payables	1(h)	694	546
		24,015	26,329
Tax liabilities			
Current tax liabilities	1(i)	1,242	(16,838)
Deferred tax liability	1(i), 14	585,121	221,766
Provision for superannuation contributions surcharge	1(j)	79,035	73,931
		665,398	278,859
TOTAL LIABILITIES		689,413	305,188
NET ASSETS AVAILABLE TO PAY BENEFITS		22,700,502	19,057,472
Represented by:			
Reserves	9	665,486	478,240
Accumulated funds	10	22,035,016	18,579,232
NET ASSETS AVAILABLE TO PAY BENEFITS		22,700,502	19,057,472

The statement of net assets should be read in conjunction with the accompanying notes.

State Public Sector Superannuation Fund

Statement of changes in net assets

for the year ended 30 June 2007

	Notes	2007 $'000	2006 $'000
NET ASSETS AVAILABLE TO PAY BENEFITS at the beginning of the financial year		19,057,472	15,682,746
Investment revenue			
Distributions from unit trusts	1(l), 4	2,646,233	2,500,849
Change in net market value of investments	1(l), 11	185,704	155,980
Investment management fees	15(f)	(27,194)	(29,936)
Interest revenue	1(l)	1,423	815
		2,806,166	2,627,708
Contribution revenue			
Employer contributions	1(l), 12	1,206,254	963,161
Member contributions	1(l), 13	1,199,363	878,106
Transfers from other funds	1(l)	477,635	373,477
		2,883,252	2,214,744
Other revenue			
Insurance recoveries	1(l)	275	125
Sundry revenue	1(l)	540	401
		815	526
Total revenue from ordinary activities		5,690,233	4,842,978
Less:			
Benefits paid		1,370,516	1,229,926
General administration expenses			
Administration fee	15(c)	48,051	43,682
Financial planning fee	15(e)	11,403	11,825
Superannuation contributions surcharge	1(j)	11,464	11,844
Insurance premiums		1,731	1,428
		72,649	68,779
Total expenses from ordinary activities		1,443,165	1,298,705
Total change in net assets before income tax		4,247,068	3,544,273
Income tax expense	14	604,038	169,547
Total change in net assets after income tax		3,643,030	3,374,726
NET ASSETS AVAILABLE TO PAY BENEFITS at the end of the financial year		22,700,502	19,057,472

The statement of changes in net assets should be read in conjunction with the accompanying notes.

Notes to the financial statements

for the year ended 30 June 2007

Note 1 Significant accounting policies

(a) Basis of accounting

General

These financial statements are a general purpose financial report, which has been prepared in accordance with the provisions of the *Superannuation (State Public Sector) Act 1990*, Australian Accounting Standard AAS 25 Financial Reporting by Superannuation Plans as amended by AASB 2005-13 Amendments to Australian Accounting Standards [AAS25], other applicable Australian Accounting Standards and authoritative pronouncements of the Australian Accounting Standards Board, and the provisions of the *Superannuation (State Public Sector) Deed 1990*.

These financial statements have been prepared on an accrual and going concern basis under the historical cost convention, except where specifically stated.

Accounting policies

Unless otherwise stated, all accounting policies applied are consistent with those of the prior year. Comparative information is reclassified where appropriate to enhance comparability.

Rounding

Unless otherwise stated, amounts have been rounded to the nearest thousand dollars.

(b) Statement of compliance

The financial statements comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Since AAS25 is the principal standard that applies to the financial statements, other standards, including AIFRS, are also applied where necessary except to the extent that they differ from AAS25.

(c) Cash

Cash represents cash at bank.

(d) Receivables

Receivables are carried at the nominal amount due and receivable. This value approximates net fair value.

(e) Goods and services tax (GST)

Revenues and expenses are recognised net of the amount of GST to the extent that the GST is recoverable from the taxation authority. Where GST is not recoverable it is recognised as part of the expense item.

Receivables and payables for which invoices have been issued or received are stated inclusive of GST. However estimates of receivables and payables are recognised net of GST, to the extent that GST is recoverable from the taxation authority. The net amount of GST recoverable from the taxation authority is included as part of receivables in the statement of net assets.

(f) Investments

The State Public Sector Superannuation Fund (Fund) maintains investments for the long-term purpose of providing benefits to members on their retirement, reaching a specified age, death, or termination of employment.

The Fund holds the majority of its investments in unit trusts, which are recorded at net market value (refer note 4). Under net market value, the investments are recorded at financial market prices less an allowance for costs expected to be incurred in realising the investments. Net fair value of the investments is considered to be equal to net market value.

The Fund has a 50% interest in Q Invest Limited (refer note 5) which is recorded at net fair value.

The Fund has a 100% interest in QSuper Limited (refer note 6) which is recorded at net fair value.

Notes to the financial statements

for the year ended 30 June 2007

Note 1 Significant accounting policies (continued)

(g) Benefits payable

Benefits payable by the Fund are accounted for on an accrual basis. Benefits payable comprise the entitlements of members who have made a claim and, at year end, are awaiting payment under the terms and conditions of the *Superannuation (State Public Sector) Deed 1990* and the *Superannuation (State Public Sector) Act 1990*.

(h) Payables

Payables represent liabilities for goods and services provided to the Fund prior to year end which are unpaid as at 30 June. Payables are normally settled within 30 days of recognition.

(i) Taxation

The Fund is an exempt public sector superannuation scheme and as such is deemed to be a complying superannuation fund within the provisions of the Income Tax Assessment Act as amended. Accordingly, the concessional tax rate of 15% has been applied.

Income tax on the benefits accrued as a result of operations for the year comprises current and deferred tax. Income tax is recognised in the statement of changes in net assets except to the extent that it relates to items recognised directly in members' funds, in which case it is recognised directly in members' funds.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the statement of net assets date and any adjustment to tax payable in respect of previous years.

Deferred tax is determined using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantially enacted at reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realised.

(j) Superannuation contributions surcharge

Superannuation contributions surcharge was levied on surchargeable contributions on the basis of individual members' adjusted taxable incomes. The liability for the superannuation contributions surcharge is recognised when the assessment is received from the Australian Taxation Office as the Board considers this is when it can be reliably measured.

A liability has been recognised in the financial statements for the amount of surcharge assessments received but not paid, together with interest accrued on this amount.

The *Superannuation Laws Amendment (Abolition of Surcharge) Act 2005* abolished both the superannuation contributions surcharge and the termination payments surcharge in respect of superannuation contributions and certain termination payments made or received on or after 1 July 2005. Assessments for surcharge in respect of contributions and payments for the year ended 30 June 2005 and prior years will continue to be issued and remain payable.

(k) Liability for accrued benefits

Defined Benefit account

The liability for accrued defined benefits is actuarially measured on at least a triennial basis. This liability represents the Fund's obligation to pay benefits in the future, and is determined on the basis of the present value of expected future payments which arise from membership of the scheme up to the measurement date. The figure is determined by reference to expected future salary levels and by application of a market-based, risk-adjusted discount rate and relevant actuarial assumptions (refer note 7).

Accumulation account

The liability for accumulation accrued benefits represents the Fund's present obligation to pay benefits to members and has been calculated as the difference between the carrying amount of the assets and the liabilities of the Fund as at the reporting date.

Notes to the financial statements

for the year ended 30 June 2007

Note 1 Significant accounting policies (continued)

(l) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and that revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- Distribution income is accounted for on an accrual basis. Distribution income is recognised when the Fund becomes presently entitled to the trust income.
- Changes in net market value of assets are recognised in the periods in which they occur. The changes in net market value include both realised and unrealised movements, net of the allowance for costs expected to be incurred in realising the investments.
- Employer and member contributions are brought to account, gross of any tax, as received. At year end an accrual is recognised for any contributions which relate to whole pay periods ending prior to 30 June but which are received after year end.
- Transfers from other funds and insurance recoveries are brought to account when received.
- Interest income and sundry revenue is accounted for on an accrual basis.

Note 2 Operation of the Fund

The Fund has been established by the *Superannuation (State Public Sector) Act 1990* to provide benefits for Queensland public sector employees and employees of Queensland Government entities, such as statutory authorities and government owned enterprises. The Fund consists of both Defined Benefit and Accumulation accounts.

The Fund receives all member superannuation contributions. The Fund also receives employer contributions through a mixture of regular employer contributions and payments from the Consolidated Fund (refer note 13). Contribution rates in relation to the Fund's defined benefit funding are determined by the Treasurer on the advice of the State Actuary. The funding arrangements are explained in note 13.

The Fund has been administered by the Government Superannuation Office, a portfolio office of Queensland Treasury. From 1 July 2007, the Fund will be administered by QSuper Limited (refer note 6).

Note 3 Merger of the Parliamentary Contributory Superannuation Fund

The *Superannuation (State Public Sector) Amendment Act 2007* (Amendment Act) was passed on 22 February 2007. The relevant provisions of the Amendment Act commenced on 1 July 2007 and provided for the transfer of the Parliamentary Contributory Superannuation Fund members and assets to the Fund, discontinuation of the Parliamentary Contributory Superannuation Fund and the dissolution of the body corporate immediately prior to the repeal of the *Parliamentary Contributory Superannuation Act 1970*. Consequently the financial statements prepared for the Fund for the 2007/2008 financial year will include the Parliamentary Contributory Superannuation Fund.

The net asset position of the Parliamentary Contributory Superannuation Fund that will merge at midnight on 30 June 2007 is $78,200,000.

Notes to the financial statements

for the year ended 30 June 2007

Note 4 Investment in unit trusts

	Notes	2007 $'000	2006 $'000
Queensland Investment Trust (QIT) No. 1	(i)	14,209,466	11,277,517
Queensland Investment Trust (QIT) No. 2	(ii)	5,733,051	6,375,845
QIC Property Fund	(iii)	2,213,357	1,677,289
QIC Cash Fund	(iii)	3,291	6,148
QIC International Property Fund	(iii)	421,676	–
QIC Diversified Infrastructure Fund No. 1	(iii)	362,389	–
QIC International Property Development Trust	(iii)	956	–
QIC Strategy Fund No. 1	(iii)	282,751	–
QIC Private Equity Fund No. 1	(iii)	107,562	–
Investments in unit trusts – QIC		23,334,499	19,336,799

(i) Funds held in relation to Allocated Pension and Accumulation account members.
(ii) Funds held in relation to Defined Benefit account members only.
(iii) Funds held in relation to Accumulation, Defined Benefit, and Allocated Pension account members.

Investments held with QIC

The Board of Trustees determines the investment objectives and strategy of the Fund. QIC is the lead fund investment manager and is responsible for implementing the investment strategy. QIC provides regular reports on the Fund's investments to the Board.

Five new unit trusts were established during the year in order to increase diversification. Funds held in these new unit trusts were transferred from either QIT No. 1 or QIT No. 2:

QIC International Property Fund
QIC Diversified Infrastructure Fund No. 1
QIC International Property Development Trust
QIC Strategy Fund No. 1
QIC Private Equity Fund No. 1

Notes to the financial statements

for the year ended 30 June 2007

Note 4 Investment in unit trusts (continued)

The Board of Trustees has authorised QIC's use of other specialist investment managers. This approach recognises the diversification advantages of employing a range of investment specialists. The majority of investment managers utilised are listed below:

International shares

Aletheia Research and Management Incorporated (USA)

Alliance Bernstein Investment Management Australia Limited (Global)

Altrinsic Global Advisors, LLC (Global)

AQR Capital Management, LLC(Global)

Arnhold and S. Bleichroeder Advisers, LLC (USA)

AXA Rosenberg Investment Management Asia Pacific Ltd (Europe)

City of London Investment Management Company Limited (Global)

Clarivest Asset Management, LLC (Global)

Ironbridge Capital Management, LP (Global)

Lazard Asset Management Pacific Co (Global)

Vanguard Investments Australia Ltd (Global)

Legg Mason International Equities (Singapore) Pte Ltd (Asia ex Japan)

Numeric Investors, LLC (USA)

Schroder Investment Management Australia Limited (Australia)

State Street Global Advisors, Australia, Limited (Global)

Skyhawk Capital Management, LLC (USA)

Wellington Management Company, LLP (Global)

Domestic shares

AXA Rosenberg Investment Management

Macquarie Funds Management

Schroder Investment Management Australia Limited

State Street Global Advisors, Australia, Limited

Vanguard Investments Australia Ltd

Global macro

The Bank of New York Capital Markets Limited (UK)

Barclays Global Investors Australia Limited

Bridgewater Associates Inc (USA)

FDO Partners, LLC (USA)

First Quadrant, LP (USA)

Deutsche Asset Management (Australia) Limited (Global)

Goldman Sachs Asset Management (USA)

Global real estate

Alpha Investment Partners Limited (Asia)

Beacon Capital Partners, LLC (USA)

Ostara Partners Inc (Japan)

Global fixed interest

Ashmore Investment Management Ltd (Global)

Blue Bay Asset Management (Global)

Socially responsible

AMP Capital Investors Limited

Notes to the financial statements

for the year ended 30 June 2007

Note 5 Investment in Q Invest Limited

The Fund holds a 50% interest in Q Invest Limited. Q Invest Limited's principal activities consist of acting as a licensed dealer in securities, providing financial planning advice, and acting as the responsible entity for the Q Invest Investment Access Funds. The reporting value of the investment as at 30 June 2007 approximates net fair value.

Note 6 Investment in QSuper Limited

The Board of Trustees purchased a 100% interest in QSuper Limited on 15 June 2007. QSuper Limited's principal activities consist of providing key administration services to the Fund as well as ancillary services to Queensland Treasury. The reporting value of the investment as at 30 June 2007 approximates net fair value.

Note 7 Liability for accrued benefits

The last actuarial review of the Fund was conducted as at 30 June 2004 by the State Actuary, Mr W H Cannon BSc (Hons) FIAA. The value of accrued benefits as at that date was $24,496,400,000. A summary of the most recent actuarial report prepared for the Fund is attached to, but does not form part of, these financial statements. The summary includes the State Actuary's opinion as to the financial condition of the Fund as at that date.

The difference existing between net assets available to pay benefits per the statement of net assets and the value of accrued benefits as at measurement date is explained by the Fund's funding arrangements. Further details are provided in note 13.

The next actuarial review of the Fund will be performed as at 30 June 2007. The results of this review will be reported in the 30 June 2008 financial statements.

Note 8 Vested benefits

Vested benefits are benefits that are not conditional upon continued membership of the Fund (or any factor other than resignation from the scheme) and include benefits which members were entitled to receive had they terminated their Fund membership as at the reporting date.

	2007 $'000	2006 $'000
Vested benefits	40,854,285	33,938,330

The difference between net assets available to pay benefits and the value of vested benefits as at reporting date is explained by the Fund's funding arrangements (refer note 13).

Notes to the financial statements

for the year ended 30 June 2007

Note 9 Reserves

	Balance at beginning of financial year $'000	Transfers to/(from) reserve $'000	Balance at end of financial year $'000
General	352,038	167,569	519,607
Investment fluctuation	1,757	(228)	1,529
Insurance	124,445	19,905	144,350
Reserves	478,240	187,246	665,486

General reserve: this reserve is used to fund taxation and general administrative expenses.

Investment fluctuation reserve: this reserve is held to absorb investment variations which may be caused by the delay between when member funds are receipted or an investment switch is requested by a member, and when the transaction is processed and allocated to the member's selected investment option.

Insurance reserve: the Fund provides death, disability, and income protection insurance benefits to members. These insurance benefits are greater than the members' vested benefit. This reserve holds insurance premiums collected from members to meet these Fund insurance expenses. The premium rates are reviewed by the State Actuary and set by the Board.

Note 10 Accumulated funds

	2007 $'000	2006 $'000
Balance at the beginning of financial year	18,579,232	15,357,753
Total change in net assets after income tax	3,643,030	3,374,726
Transfers (to)/from reserves	(187,246)	(153,247)
Balance at end of financial year	22,035,016	18,579,232
Represented by:		
Accumulated member funds	21,357,647	18,292,592
Accumulated employer funds	677,369	286,640
Accumulated funds	22,035,016	18,579,232

Note 11 Change in net market value of investments

The change in net market value of investments comprises net realised and unrealised changes in the value of investments in unit trusts.

Note 12 Employer contributions

	Notes	2007 $'000	2006 $'000
Accumulation account			
Employer contributions		891,657	659,679
Defined Benefit account			
Employer contributions – salary sacrifice		314,597	264,194
Employer contributions – Consolidated Fund	(i)	–	39,288
		314,597	303,482
Employer contributions		1,206,254	963,161

Employer salary sacrifice contributions in the Defined Benefit account represent standard contributions members have chosen to salary sacrifice. Salary sacrificed contributions are classified as employer contributions. Refer note 13 for further details in relation to employer contribution funding arrangements.

(i) Contributions received from the Treasurer transferred from the Consolidated Fund.

Note 13 Funding arrangements

Defined benefit arrangement

Standard members' contributions are made to the State Public Sector Superannuation Fund at a rate ranging from 2% to 9% (2006: 2% to 9%) of members' salaries.

Employing authorities are required to remit employer contributions to the Queensland Treasury. These contributions are accumulated in a reserve in the Consolidated Fund, which is maintained to finance the State's future liability for the employer component of all defined benefits. The Treasurer, on advice from the State Actuary, determines the rate of employer contribution into the Consolidated Fund.

As defined benefits become payable, the full cost is met by the State Public Sector Superannuation Fund, with the Consolidated Fund contributing the employers' share of these benefits. This split funding arrangement is the reason for the difference between net assets available to pay benefits, per the statement of changes in net assets and the value of accrued benefits and vested benefits as at the respective measurement dates.

Funding from the Consolidated Fund may be in the form of last minute funding received at the time the benefit is paid (as described in the *Superannuation (State Public Sector) Act 1990* and in various sections of the *Superannuation (State Public Sector) Deed 1990*). Alternatively, the Act allows the transfer of amounts from the Consolidated Fund to the State Public Sector Superannuation Fund in circumstances and at times other than funding the immediate payment of benefits. No transfer of this nature occurred during the 2007 financial year (2006: nil).

Accumulation arrangement

Where members have chosen an accumulation-style benefit, all member and employer contributions are paid to the Fund, other than where a member transfers from the Defined Benefit account. In this instance, the benefit arising in relation to the defined benefit membership remains under the above-mentioned last minute funding arrangement. Employer contributions to the Fund for members who do not contribute are at a rate ranging from 3% to 9% (2006: 3% to 9%) of members' salaries.

Accumulation account members, who make their own member contributions at a rate ranging from 2% to 6%, receive employer contributions at a rate ranging from 9.75% to 18%. Non-core employers may choose to enter into special arrangements that may differ from these standard arrangements. Members may also choose to pay additional voluntary contributions.

Notes to the financial statements

for the year ended 30 June 2007

Note 14 Income tax expense

	2007 $'000	2006 $'000
Major components of income tax expense for the years ended 30 June 2007 and 2006 are:		
Statement of changes in net assets		
Current income tax		
Current income tax expense	241,452	123,698
Adjustments in respect of current income tax of previous years	(769)	1,742
Deferred income tax		
Relating to origination and reversal of temporary differences	363,355	44,107
Income tax expense reported in statement of changes in net assets	604,038	169,547

A reconciliation between income tax expense and the accounting profit before income tax multiplied by the applicable tax rate is as follows:

	2007 $'000	2006 $'000
Increase in net assets before income tax	4,247,068	3,544,273
At the tax rate of 15%	637,060	531,641
Tax effect of non-deductible expenses and non-assessable income in calculating the taxable amount		
Return on investments	(215,347)	(284,208)
Benefits paid	205,577	184,489
Members' contributions	(174,482)	(128,950)
Transfers from other superannuation schemes	(69,768)	(53,860)
Superannuation contributions surcharge	1,720	1,777
Unrealised capital gains	362,737	44,518
Notional premium for death or disability cover	(37,800)	(34,500)
Net imputation and foreign tax credits	(78,623)	(81,699)
Other differences	(26,267)	(11,403)
	604,807	167,805
Under/(over) provision for taxation – prior year	(769)	1,742
Income tax expense reported in statement of changes in net assets	604,038	169,547

Note 14 Income tax expense (continued)

	2007 $'000	2006 $'000
Deferred income tax at 30 June relates to the following:		
Deferred income tax liabilities		
Contributions receivable	601	19
Investment income receivable	70	34
Unrealised gains in investment subject to capital gains tax	584,450	221,713
Net deferred tax liability	585,121	221,766
Movements in deferred income tax liabilities		
Opening balance	221,766	177,659
Change to statement of changes in net assets	363,355	44,107
Closing balance	585,121	221,766

Note 15 Related parties

(a) Trustees

The Trustees of the Fund at any time during or since the end of the financial year are:

Member representatives	*Employer representatives*
Christopher J Barrett	Gerard P Bradley
Karen S Peut	Teresa M Hamilton
Stephen R Ryan	Linda A Apelt
Garry J Ryan *(resigned 13 July 2007)*	Anthony J Hawkins
Gary J Wilkinson *(resigned 1 August 2007)*	John J Carpendale
Denis R Fitzpatrick *(appointed 3 August 2007)*	

Any Trustee who is a member of the Fund contributes to the Fund on the same terms and conditions as other members.

Fees for attendance at Trustee meetings are paid to non-Queensland Government employees personally or to their employing organisations. This fee is set by Cabinet.

(b) Employer sponsor

Employer funding arrangements are discussed in note 13.

Note 15 Related parties (continued)

(c) Government Superannuation Office (GSO)

During the 2006/2007 financial year, the GSO provided fund administration services to the Fund and was paid an administration fee. The fee covered all administration costs including superannuation administration, audit, actuarial fees, legal fees, and medical costs. Administration fees paid to the GSO for the period totalled $48,051,000 (2006: $43,682,000).

From 1 July 2005, the portion of administration fees associated with managing the insurance function has been funded directly by the Fund insurance reserve. During the 2006/2007 financial year, total fees paid to the GSO in relation to the insurance management function aggregated $5,664,000 (2006: $4,965,000).

From 1 July 2007, the GSO will cease to provide administration services to the Fund and QSuper Limited will take over responsibility as the administrator.

(d) QSuper Limited

QSuper Limited has been established to provide fund administration services to the Fund from 1 July 2007. From that date, QSuper Limited will receive an administration fee for providing these services to the Fund.

(e) Q Invest Limited (Q Invest)

The Fund has a 50% ownership interest in Q Invest. Q Invest provides financial planning advice to Fund members. Fees paid to Q Invest for the period totalled $11,403,000 (2006: $11,825,000).

Q Invest Limited also acts as responsible entity for the Q Invest Limited Investment Access Funds in which Fund members may invest.

(f) QIC

QIC is the Fund's investment manager. It is a body corporate established under the *Queensland Investment Corporation Act 1991*. QIC holds the remaining 50% interest in Q Invest Limited.

Fees paid to QIC for the period totalled $27,194,000 (2006: $29,936,000).

(g) Related party Fund members

Any employee of a related party who is also a Fund member contributes to the Fund on the same terms and conditions as other members.

Note 16 Financial instruments

(a) General

The Board seeks information and advice from QIC on the performance of the individual asset classes of the Fund (and may also seek independent advice from other qualified persons) so as to form an opinion on the nature and extent of any risks, and the expected returns, associated with each investment prior to determining its suitability as an investment for the Fund. This includes receipt of a formal risk management statement from QIC.

The Fund, via its investment in the QIC vehicle, has investments in a variety of financial instruments, including derivatives, which expose the Fund's investments to a variety of investment risks, including market risk, credit risk, interest rate risk, and currency risk.

(b) Credit risk

The net market value of financial assets included in the statement of net assets represents the Fund's exposure to credit risk in relation to those assets.

Notes to the financial statements

Note 16 Financial instruments (continued)

(c) Interest rate risk

The Fund is exposed to interest rate risk through cash held in the bank account.

The Fund's investment manager invests in financial assets that are subject to interest rate risk. The returns on investment will fluctuate in accordance with movements in market interest rates.

(d) Net fair value

The Fund's financial assets are included in the statement of net assets at net market value amounts that approximate net fair value. The methods of determining net market value are described in note 1(f).

Note 17 Capital guarantee

The Fund has underwritten to provide the members of the closed Voluntary Preservation Plan (VPP), a capital guarantee that the earning rate for a full financial year will not be negative. In return for this capital guarantee, VPP members are levied a premium on 30 June each year.

The accumulated premiums levied up to 30 June 2007 are $10,463,000 (2006: $10,064,000).

Note 18 Insurance

Eligible employees of a small number of employers are covered by external insurance arrangements, whilst the majority of the Fund members have their insurance provided by the Fund on a self-insurance basis. Refer note 9.

Note 19 Segment information

The Fund operates solely in the business of provision of benefits to members and operates in Australia only.

Note 20 Commitments and contingent liabilities

The Fund has no known material commitments or contingent liabilities as at 30 June 2007, apart from the disclosure in note 21.

Note 21 Post balance date events

There were no known material events which occurred subsequent to balance date, except for the planned novation from the Fund to QSuper Limited of a number of contracts associated with the construction of Central Plaza Three and the disclosure in note 3.

Note 22 Regulation of the State Public Sector Superannuation Fund

The Fund currently complies with the *Superannuation (State Public Sector) Act 1990* and the *Superannuation (State Public Sector) Deed 1990*. Although the Fund adheres to the principles of the regulatory framework as prescribed by *Superannuation Industry (Supervision) Act 1993*, it is not subject to formal Commonwealth licensing under a Commonwealth/State agreement.

On 22 February 2007, the Queensland Parliament passed legislation to amend the *Superannuation (State Public Sector) Act 1990* which provides for flexibility to opt into Commonwealth licensing.

The Board of Trustees is presently considering moving the Fund into the Commonwealth regulatory framework and becoming licensed and a Registrable Superannuation Entity.

Statement of the Board of Trustees

of the State Public Sector Superannuation Fund for the year ended 30 June 2007

In the opinion of the Board of Trustees of the State Public Sector Superannuation Fund:

1. the accompanying financial statements of the State Public Sector Superannuation Fund are properly drawn up so as to present a true and fair view of the net assets of the Fund as at 30 June 2007 and the changes in net assets for the year ended on that date;
2. the accompanying financial statements have been prepared in accordance with the provisions of the *Superannuation (State Public Sector) Act 1990* and with Australian Accounting Standards and other mandatory professional reporting requirements in Australia;
3. the accompanying financial statements are in agreement with the accounts and records of the Fund and the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and
4. the Fund has been conducted in accordance with the *Superannuation (State Public Sector) Deed 1990* and the requirements of the *Superannuation (State Public Sector) Act 1990*.

G P Bradley
Chairman

W Ivessa
Assistant Under Treasurer
Queensland Treasury
Chairman of the Audit and
Compliance Committee

R A Vilgan
Chief Executive Officer

Brisbane
14 September 2007

Independent audit report

to the Board of Trustees and members of the State Public Sector Superannuation Fund

Matters relating to the electronic presentation of the audited financial report

The audit report relates to the general purpose financial statements of the State Public Sector Superannuation Fund for the financial year ended 30 June 2007 included on the QSuper website. The Government Superannuation Office is responsible for the integrity of the QSuper website. We have not been engaged to report on the integrity of the QSuper website. The audit report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial statements are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited general purpose financial statements, available from QSuper, to confirm the information included in the audited financial report presented on this website. These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

Report on the financial report

I have audited the accompanying financial report of the State Public Sector Superannuation Fund which comprises the statement of net assets, statement of changes in net assets, notes to the financial statements and certificates given by the Board of Trustees and Chief Executive Officer for the year ended 30 June 2007.

The Trustees' responsibility

The Trustees are responsible for the preparation and fair presentation of the financial report in accordance with the requirements of the *Superannuation (State Public Sector) Act 1990*. This responsibility includes designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. These Auditing Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

The *Financial Administration and Audit Act 1977* promotes the independence of the Auditor-General and QAO authorised auditors. The Auditor-General is the auditor of all public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised.

The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

Audit opinion

In my opinion the financial statements of the State Public Sector Superannuation Fund are in accordance with –

(a) the provisions of the *Superannuation (State Public Sector) Act 1990,* and

(b) the prescribed accounting standards and other mandatory professional reporting requirements in Australia, including giving a true and fair view of the State Public Sector Superannuation Fund's net assets and changes in net assets for the year ended 30 June 2007.

G G Poole *FCPA*
Auditor-General of Queensland

Queensland Audit Office
Brisbane

24 September 2007

Appendix

Summary report on the actuarial investigation of the State Public Sector Superannuation Scheme as at 30 June 2004

The latest actuarial investigation of the State Public Sector Superannuation Scheme (QSuper) was conducted as at 30 June 2004 by the State Actuary Mr W H Cannon BSc (Hons) FIAA ASIA. Given below is a summary of the main findings of the investigation.

Financial condition

This investigation has revealed that QSuper is in a healthy position with a surplus of assets over accrued liabilities of $1,838,000,000, which represents an increase of $588,000,000 from the surplus at the 2001 investigation. The main factors causing this increase have been the lower than expected salary inflation, the higher than assumed investment returns and interest on the previous surplus.

In the light of the available surplus the Actuary has considered the funding implications of maintaining the current employer contribution rates (i.e. those listed in Table 1). This investigation has revealed that these contribution rates will not jeopardise the solvency position of the Fund and therefore the Actuary has supported their retention

Table 1 – Current employer contribution rates by category

Category	Current employer contribution rate
Defined Benefit standard	7.75% of salary + 1.00 x member contributions
State category	4.75% of salary + 1.00 x member contributions
Defined Benefit police	6.00% of salary + 2.00 x member contributions
Police category	3.00% of salary + 2.00 x member contributions
Defined Benefit fires	12.00% of salary

The Actuary has certified that the expected liabilities of the scheme should be adequately provided for by the assets of the QSuper Fund and the relevant reserve within the Consolidated Fund, together with the Funds' investment earnings and member and employer contributions at the current level. Taking into account the funding arrangements of the scheme, the statements required under *Superannuation Industry (Supervision) Regulation 9.31* are not applicable.

Value of assets

The net market value of the Scheme's assets as at 30 June 2004 was $12,981,100,000 and the market value of the relevant assets held in the Consolidated Fund was $13,353,000,000, resulting in a total market value of $26,334,100,000. These asset values were used to determine the recommended contribution rates.

Vested benefits

Vested benefits are the benefits to which members would be entitled if they terminated service at the date of calculation. These have therefore been defined as early retirement benefits for those members who are eligible and resignation benefits otherwise. The relationship between vested benefits and fund assets at any particular date provides an indication of a scheme's ability to provide benefits on a short-term basis. Generally, it is considered essential that the market value of assets exceeds the value of vested benefits since the security of members' benefits would be jeopardised if the scheme were to be terminated. However, in the case of QSuper, not only is the security of members' benefits guaranteed for all practical purposes (as the State can be assumed to be indefinitely continuing), it is quite likely that, in the absence of any significant surplus of assets over accrued liabilities, the market value of assets will be less than the value of vested benefits (as defined above). This occurs as a result of the benefit design of the Defined Benefit category in QSuper and a detailed discussion of this apparent anomaly is contained in the full report. In summary, it is more appropriate to assess the funding of QSuper by comparing its assets to the present value of accrued benefits as shown below. It will be noted however that, in this investigation, there was indeed a surplus of assets over accrued liabilities so that vested benefits would be expected to be less than the value of assets.

The total value of vested benefits as at 30 June 2004 was $26,184,200,000. This includes vested benefits in respect of active members (including Accumulation account members), preserved benefits in respect of former members and the value of pensions payable to former members and beneficiaries[1], and allows for the estimated level of vested contributions tax.

The ratio of the value of relevant fund assets to the total vested benefits required to be paid by the Fund in respect of active members (excluding Accumulation categories liabilities and assets) was 101.9%. This indicates that the assets were more than sufficient to provide for the vested benefits.

[1] The value of vested benefits in respect of Accumulation accounts, preserved benefits in respect of former members and the value of pensions payable to former members and beneficiaries was $10,044,200,000.

Appendix

Summary report on the actuarial investigation of the State Public Sector Superannuation Scheme as at 30 June 2004 (continued)

Accrued benefits

Accrued benefits are the benefits that a scheme is committed to provide in the future in respect of membership of the Fund completed prior to the reporting date. The relationship between the value of accrued benefits and a Fund's assets at a particular date may be used as a guide to the ability to provide benefits on an ongoing basis.

The accrued benefits of QSuper comprise the following items:

- accrued benefits for active members in respect of their membership up to the reporting date.
- preserved benefits held in respect of former members
- pensions payable to former members and beneficiaries
- account balances of Accumulation category members

The aggregate value of accrued benefits was determined by the Actuary as at the date of the actuarial investigation on the following basis:

- Accrued benefits for active members were assumed to increase in line with general levels of salary inflation and promotional salary growth.
- Accrued benefits were assumed to be payable (or for pensioners, cease to be payable) on the leaving of service, death or disablement of members in a manner consistent with the assumptions made in the most recent actuarial investigation of QSuper.
- The present value of accrued benefits was assessed by applying a long-term discount rate equivalent to an investment return that is 3.5% per annum in excess of assumed salary inflation. Salary inflation was assumed to be 4.0% per annum. This assumed investment return allows for all forms of investment income, dividends, rents, and capital gains, and is assumed to be net of investment management expenses, charges, fees, and taxes.
- Accrued benefits were apportioned between past and future service using the Actual Accrual Approach. This is equivalent to allowing only for the period of service up to 30 June 2004 when calculating the expected benefits payable in future years.

The total value of accrued benefits as at 30 June 2004 was $24,496,400,000, including an allowance for the estimated level of accrued contributions tax.

The ratio of the value of relevant fund assets to the total discounted value of accrued benefits in respect of active members was 113.8%. This indicates that the assets were more than sufficient to provide for the present value of accrued benefits.

Key assumptions

Discount rate
The assumed long-term earning rate on the Fund's assets after tax and investment expenses is 7.5% per annum.

Salary growth
Long-term salary growth due to inflation is assumed to be at the rate of 4% per annum.
Salary growth due to promotion is assumed to be in accordance with an age-based salary scale.

Inflation
This assumption is relevant for the purposes of valuing pensions that are increased in line with increases in the CPI. Pensions in payment have been assumed to increase at the rate of 3.0% per annum.

Government Superannuation Office

General purpose financial statements for the year ended 30 June 2007


CONSTABLE

Government Superannuation Office

Income statement

for the year ended 30 June 2007

	Notes	2007 $'000	2006 $'000
Revenue from ordinary activities	2	48,312	42,424
Expenses from ordinary activities	3	46,854	41,788
Net operating result		1,458	636

The accompanying notes form part of these financial statements.

Government Superannuation Office

Balance sheet

as at 30 June 2007

	Notes	2007 $'000	2006 $'000
ASSETS			
Current assets			
Cash assets	1(d), 4	12,826	14,599
Receivables	1(e), 5	6,412	4,493
Other	6	278	282
Total current assets		19,516	19,374
Non-current assets			
Plant and equipment	1(f), 7	4,431	1,544
Intangible assets	1(g), 8	3,052	3,802
Other	6	8	14
Total non-current assets		7,491	5,360
TOTAL ASSETS		27,007	24,734
LIABILITIES			
Current liabilities			
Payables	1(j), 9	7,082	6,863
Accrued employee benefits	1(k), 10	2,389	1,993
Total current liabilities		9,471	8,856
Non-current liabilities			
Accrued employee benefits	1(k), 10	468	303
Total non-current liabilities		468	303
TOTAL LIABILITIES		9,939	9,159
NET ASSETS		17,068	15,575
EQUITY			
Accumulated surplus		17,068	15,575
TOTAL EQUITY		17,068	15,575

The accompanying notes form part of these financial statements.

Government Superannuation Office

Statement of changes in equity

for the year ended 30 June 2007

	Notes	2007 $'000	2006 $'000
Balance at the beginning of the financial year		15,575	14,989
Net operating result for the financial year		1,458	636
Net leave liabilities transferred to/(from) other government entities		35	(50)
Balance at the end of the financial year		17,068	15,575

The accompanying notes form part of these financial statements.

Government Superannuation Office

Cash flow statement

for the year ended 30 June 2007

	Notes	2007 $'000	2006 $'000
Cash flows from operating activities			
Inflows			
Administration fees and other receipts		45,935	39,954
Interest receipts		511	465
Goods and services tax refunded from ATO		278	208
Goods and services tax collected from customers		4,592	3,983
		51,316	44,610
Outflows			
Employee and administration payments		43,132	38,254
Goods and services tax payments to suppliers		2,122	1,406
Goods and services tax remitted to ATO		2,803	2,758
		48,057	42,418
Net cash provided by operating activities	11	3,259	2,192
Cash flows from investing activities			
Inflows			
Proceeds from sale of plant and equipment		2	–
		2	–
Outflows			
Payments for plant and equipment		4,125	268
Payments for intangible assets		909	418
		5,034	686
Net cash used in investing activities		5,032	686
Net increase (decrease) in cash held		(1,773)	1,506
Cash at beginning of financial year		14,599	13,093
Cash at end of financial year		12,826	14,599

The accompanying notes form part of these financial statements.

Notes to the financial statements

for the year ended 30 June 2007

Note 1 Significant accounting policies

(a) Basis of accounting

General

The Government Superannuation Office (the organisation) elects to prepare general purpose financial statements.

These statements have also been prepared in accordance with the *Financial Administration and Audit Act 1977, Financial Management Standard 1997*, applicable Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

These financial statements have been prepared on an accrual basis under the historical cost convention, except where specifically stated.

Accounting policies

Unless otherwise stated, all accounting policies applied are in compliance with Australian equivalents to International Financial Reporting Standards (AIFRS). Comparative information is reclassified where appropriate to enhance comparability.

Classification between current and non-current

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be realised or paid. The asset or liability is classified as current if it is expected to be turned over within the next twelve months, being the organisation's operational cycle.

Rounding

Unless otherwise stated, amounts have been rounded to the nearest thousand dollars.

(b) Statement of compliance

The financial statements comply with Australian Accounting Standards, which include AIFRS.

At the date of certification of the financial statements, there were a number of Standards and Interpretations which have been issued or revised but were not yet effective.

None of the Australian Accounting Standards and Interpretations that have been issued but are not yet effective have been included in the 2007 financial year.

It is anticipated that the Australian Accounting Standards and Interpretations issued are either not applicable to the organisation or the adoption of them in future periods will have no material financial impact on the financial statements.

(c) Revenue recognition

Revenue is recognised when goods or services are delivered.

(d) Cash assets

For the purposes of the balance sheet, cash assets include all cash and cheques receipted by 30 June.

Notes to the financial statements

for the year ended 30 June 2007

Note 1 Significant accounting policies (continued)

(e) Receivables

Trade debtors are recognised at the nominal amounts due at the time of sale or service delivery, with settlement being generally required within 30 days from the invoice date.

The collectability of receivables is assessed periodically with provision being made for impairment.

Bad debts are written off in the period in which they are recognised.

(f) Recognition and measurement of plant and equipment

Actual costs are used for the initial recording of assets, being the fair value of the assets provided as consideration plus any incidental costs attributable to the acquisition, including all other costs incurred in getting the assets ready for use.

Plant and equipment items with a cost or value in excess of $5,000 and a useful life of more than one year, are recognised as an asset. All other items of plant and equipment are expensed on acquisition.

Repairs and maintenance

Routine maintenance, repairs and minor renewal costs are expensed as incurred. Where the repair relates to the replacement of a component of an asset and the cost exceeds the capitalisation threshold, the cost is capitalised and depreciated.

Operating leases

Lease payments for operating leases are recognised as an expense in the years in which they are incurred, as this reflects the pattern of benefits derived by the organisation.

Leasehold improvements

Leasehold improvements with a cost in excess of $10,000 are recognised as an asset and depreciated over the unexpired period of the lease or the estimated useful life of the improvement, whichever is the shorter.

(g) Intangible assets

All intangible assets with a cost or value greater than $100,000 are recognised as an asset in the financial statements, with items of a lesser value being expensed.

Each intangible asset is amortised over its estimated useful life to the organisation less any anticipated residual value. Expenditure on research and development relating to internally generated intangible assets is recognised as an expense in the period in which it is incurred.

Notes to the financial statements

for the year ended 30 June 2007

Note 1 Significant accounting policies (continued)

(h) Amortisation and depreciation of intangible assets and plant and equipment

Depreciation on plant and equipment is calculated on a straight-line basis so as to write-off the net cost of each depreciable asset, less its estimated residual value, progressively over its estimated useful life to the organisation.

Work in progress is not depreciated until it reaches service delivery capacity.

Where assets have separately identifiable components, these components are assigned useful lives distinct from the asset to which they relate. Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the new depreciable amount is depreciated over the remaining useful life of the asset to the organisation.

Major depreciation periods used are listed below:

	2007	2006
Plant and equipment		
Computer equipment (refer note 7(i))	4 to 8 years	4 to 7 years
Office equipment (refer note 7(i))	5 to 7 years	5 to 6 years
Office furniture and fittings	10 years	10 years
Leasehold improvements (refer note 7(i))	2 to 9 years	6 to 12 years
Intangible assets		
Software purchases	5 years	5 years
Software development (refer note 8(i))	3 to 14 years	3 to 14 years

(i) Impairment of non-current assets

All non-current physical and intangible assets are assessed for indicators of impairment on an annual basis.

If an indicator of impairment exists, the organisation determines the asset's recoverable amount. Any amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss. It has been determined that there is no active market for any of the organisation's intangible assets. As such the material assets of the organisation are currently valued at historical cost less accumulated amortisation and accumulated impairment losses. At the time of certification, there were no indicators of impairment. As such, it is expected that there will be no effect upon the organisation's financial statements as at 30 June 2007.

(j) Payables

Payables are recognised for amounts payable in the future for goods and services received, whether or not billed to the organisation. Creditors are generally unsecured, and are normally settled within 30 days of invoice receipt.

Notes to the financial statements

for the year ended 30 June 2007

Note 1 Significant accounting policies (continued)

(k) Employee benefits

Annual leave

Annual leave entitlements are accrued on a pro-rata basis in respect of services provided by employees up to balance date. The liability for salaries and annual leave is calculated using the remuneration rates the organisation expects to pay as at the reporting date.

Where there are instances of annual leave not expected to be paid within twelve months, the liability is measured at the present value of the future cash flows.

Long service leave

Under the State Government's Long Service Leave Central Scheme, a levy is made on the organisation to cover this expense. Amounts paid to employees for long service leave are claimed from the scheme as and when leave is taken.

No provision for long service leave is recognised in the financial statements, the liability being held on a Whole of Government basis and reported in the financial statements prepared pursuant to AAS 31 "Financial Reporting by Governments".

Superannuation

Employees of the organisation are members of the State Public Sector Superannuation Fund (QSuper). Contributions to employee superannuation accounts are expensed as they are paid or become payable.

The Treasurer of Queensland, based on advice received from the Queensland State Actuary, determines the employer contributions for superannuation.

No liability is recognised for accruing superannuation benefits in these financial statements, the liability being held on a Whole of Government basis and reported in the Whole of Government financial statements prepared pursuant to AAS 31 "Financial Reporting by Governments".

(l) Taxation

The activities of the organisation are exempt from the *Income Tax Assessment Act 1936* and *Income Tax Assessment Act 1997* except for Fringe Benefits Tax (FBT) and Goods and Services Tax (GST). As such, input tax credits receivable and GST payable from/to the Australian Taxation Office are recognised and accrued.

(m) Judgments and assumptions

The organisation has made no judgments or assessments which may cause a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

Notes to the financial statements

for the year ended 30 June 2007

Note 2 Income statement – revenue

Revenue from ordinary activities

	2007 $'000	2006 $'000
(a) Administration fees received or due and receivable		
QSuper (refer note 14(b))	47,563	41,842
Parliamentary Contributory Superannuation Fund (refer note 14(c))	48	45
Long Service Leave Central Scheme (refer note 14(a))	49	49
	47,660	41,936
(b) Interest received or due and receivable	564	456
(c) Other revenue received or due and receivable	88	32
Total revenue from ordinary activities	48,312	42,424

Note 3 Income statement – expenses

Operating expenses from ordinary activities

		2007 $'000	2006 $'000
(a) Employee expenses			
Salaries and wages	(i)	20,633	19,000
Superannuation contributions		2,332	2,187
Payroll taxation		1,092	1,031
Personnel development		443	461
Recruitment and selection		398	141
Contractors		3,964	2,999
Other employee expenses		551	386
		29,413	26,205

(i) The organisation had 348 full-time equivalent employees at 30 June 2007 (343 at 30 June 2006).

	2007 $'000	2006 $'000
(b) Corporate service fees (refer note 14(a))	2,062	2,083
(c) Postage and printing		
Postage	1,458	1,201
Printing	1,247	1,127
	2,705	2,328

Notes to the financial statements

for the year ended 30 June 2007

Note 3 Income statement – expenses (continued)

Operating expenses from ordinary activities

	2007 $'000	2006 $'000
(d) Depreciation and amortisation (refer notes 7 and 8)		
Computer equipment	765	527
Office furniture and fittings	1	1
Office equipment	45	46
Leasehold improvements	379	116
Software purchases	14	14
Software development	1,583	2,019
	2,787	2,723
(e) Rental expense – operating lease	1,681	1,687
(f) Consultancy		
Communication	45	215
Information technology	383	135
Medical	1,469	1,259
Investment	445	344
Taxation	215	30
Technical	143	–
Other	–	15
	2,700	1,998
(g) Computer charges and operating costs	1,664	1,497
(h) Auditors' remuneration		
Queensland Audit Office (QAO) – external audit services	181	165
KPMG – internal audit services	200	190
	381	355
(i) Other expenses		
Marketing and communications	887	779
Minor assets (refer note 1(f))	839	599
Stationery and subscriptions	493	550
Other occupancy charges	364	317
Actuarial fees	250	241
Records management	151	131
Legal costs	138	57
Trustee fees	67	23
Other administration costs	272	215
	3,461	2,912
Total operating expenses from ordinary activities	46,854	41,788

Notes to the financial statements

for the year ended 30 June 2007

Note 4 Cash assets

	2007 $'000	2006 $'000
Cash on hand	1	1
Cash at bank	12,825	14,598
	12,826	14,599

Note 5 Receivables

	2007 $'000	2006 $'000
Current		
Trade debtors	5,887	4,131
GST receivable	237	182
Interest	212	159
Other	76	21
	6,412	4,493

Note 6 Other assets

	2007 $'000	2006 $'000
Current		
Prepayments	278	282
Non-current		
Prepayments	8	14

Notes to the financial statements

for the year ended 30 June 2007

Note 7 Plant and equipment

		2007 $'000	2006 $'000
Computer equipment	(i), (ii)	6,974	3,670
Less: accumulated depreciation		3,206	3,018
Carrying amount at the end of the financial year		3,768	652
Office furniture and fittings		14	23
Less: accumulated depreciation		14	19
Carrying amount at the end of the financial year		–	4
Office equipment	(i)	229	244
Less: accumulated depreciation		111	143
Carrying amount at the end of the financial year		118	101
Leasehold improvements	(i)	1,455	1,318
Less: accumulated depreciation		910	531
Carrying amount at the end of the financial year		545	787
Total plant and equipment		4,431	1,544

(i) Revision of accounting estimates

During the year, estimated total useful lives of leasehold improvements and certain items of office and computer equipment were revised. The net effect of the change in the current year is an increase in depreciation expense of approximately $183,000 (2006: $52,000).

(ii) Fully depreciated plant and equipment held at 30 June 2007

Plant and equipment includes fully depreciated assets with a gross cost of $281,000 (2006: $500,000). While the assets have a nil carrying amount at 30 June 2007, they are still in use.

Notes to the financial statements

for the year ended 30 June 2007

Note 7 Plant and equipment (continued)

Plant and equipment reconciliation	2007 $'000	2006 $'000
Computer equipment		
Carrying amount at the beginning of the financial year	652	929
Additions	3,882	245
Write-offs	(3)	–
Transfers between asset classes	2	5
Depreciation expense	(765)	(527)
Carrying amount at the end of the financial year	3,768	652
Office furniture and fittings		
Carrying amount at the beginning of the financial year	4	5
Additions	–	–
Write-offs	(3)	–
Transfers between asset classes	–	–
Depreciation expense	(1)	(1)
Carrying amount at the end of the financial year	–	4
Office equipment		
Carrying amount at the beginning of the financial year	101	94
Additions	67	59
Write-offs	(1)	(1)
Transfers between asset classes	(4)	(5)
Depreciation expense	(45)	(46)
Carrying amount at the end of the financial year	118	101
Leasehold improvements		
Carrying amount at the beginning of the financial year	787	903
Additions	137	–
Write-offs	–	–
Transfers between asset classes	–	–
Depreciation expense	(379)	(116)
Carrying amount at the end of the financial year	545	787
Total plant and equipment	4,431	1,544

Notes to the financial statements

for the year ended 30 June 2007

Note 8 Intangible assets

		2007 $'000	2006 $'000
Software purchases		127	127
Less: accumulated amortisation		107	92
Carrying amount at the end of the financial year		20	35
Software development		10,558	9,894
Software development work in progress		696	497
Less: accumulated amortisation		8,222	6,624
Carrying amount at the end of the financial year		3,032	3,767
Total intangible assets	(i)	3,052	3,802

(i) Revision of accounting estimates

During the year estimated total useful lives of intangible assets were reviewed. The net effect of the change in the current year is a decrease in amortisation expense of approximately $81,000 (2006: nil).

Intangible assets reconciliation

	2007	2006
Software purchases		
Carrying amount at the beginning of the financial year	35	49
Additions	–	–
Write-offs	–	–
Transfers between asset classes	–	–
Amortisation expense	(15)	(14)
Carrying amount at the end of the financial year	20	35
Software development		
Carrying amount at the beginning of the financial year	3,767	5,181
Additions	848	605
Write-offs	–	–
Transfers between asset classes	–	–
Amortisation expense	(1,583)	(2,019)
Carrying amount at the end of the financial year	3,032	3,767
Total intangible assets	3,052	3,802

Notes to the financial statements

for the year ended 30 June 2007

Note 9 Payables

	2007 $'000	2006 $'000
Trade creditors	4,891	4,451
Other creditors and accruals	2,191	2,412
	7,082	6,863

Note 10 Accrued employee benefits

		2007 $'000	2006 $'000
Current			
Salaries and wages outstanding		611	410
Recreation leave		1,778	1,583
		2,389	1,993
Non-current			
Recreation leave	(i)	468	303
		468	303

(i) The discount rates used to calculate the present value of non-current recreation leave is 6.39% (2006: 5.32%).

Notes to the financial statements

for the year ended 30 June 2007

Note 11 Cash flow statement

Reconciliation of net operating result to net cash provided by operating activities	2007 $'000	2006 $'000
Net operating result	1,458	636
Depreciation (refer note 1(h))	1,190	690
Amortisation (refer note 1(h))	1,597	2,033
Proceeds from sale of plant and equipment	(2)	–
Write-off of non-current assets	7	1
Equity adjustment associated with net leave liabilities transferred to/(from) other government entities	35	(50)
Change in operating assets and liabilities:		
(Increase) in receivables	(1,919)	(1,979)
Decrease/(increase) in prepayments	10	(2)
Increase in payables	322	597
Increase in accrued employee benefits	561	266
Net cash provided by operating activities	3,259	2,192

Note 12 Superannuation

The organisation contributes in respect of its employees to the following superannuation accounts:

Type of account	Contribution rate	2007 $'000	2006 $'000
QSuper Defined Benefit account	9.75% to 12.75%	956	1,001
QSuper Accumulation account	9.00% to 12.75%	1,376	1,186
Total contributions		2,332	2,187

As at the reporting date, there are no outstanding contributions payable to the above accounts. The organisation is not liable for any unfunded liability in respect of the above employer sponsored defined benefits superannuation account (refer note 1(k)).

Note 13 Segment information

The principal activities of the organisation include the provision of expert superannuation policy advice, the provision of competitive products and services to enhance employee remuneration and retain members post employment and the administration of legislation related to the management of superannuation for Queensland State Public Sector employees. The organisation concentrates its activities in one geographical area, being Queensland.

Notes to the financial statements

for the year ended 30 June 2007

Note 14 Related parties

The organisation is a portfolio office of the Queensland Treasury and is responsible for administering QSuper, the Parliamentary Contributory Superannuation Fund, the Judges' Pension Scheme, the Governors' Pension Scheme and the long service leave provisions for Queensland State Public Sector employees. During the year transactions were undertaken between the organisation and a number of related parties.

(a) Queensland Treasury

Under the Queensland Government Shared Service Initiative, Corporate Solutions Queensland (CSQ) is the corporate service provider of Queensland Treasury.

Certain corporate service functions of the organisation are provided by CSQ in accordance with a service level agreement between the service provider and Queensland Treasury. During the financial year, fees to Queensland Treasury for services, including those provided by CSQ, aggregated $2,062,000 (2006: $2,083,000).

The organisation is appointed to administer the Long Service Leave Central Scheme by Queensland Treasury. Administration fees received for conducting this service aggregated $49,000 (2006: $49,000) during the financial year.

(b) QSuper Board of Trustees

The organisation provides fund administration services to the QSuper Board of Trustees in accordance with the *Superannuation (State Public Sector) Act 1990*. Total administration fees received from QSuper for the year aggregated $47,563,000 (2006: $41,842,000).

Administration fees associated with management of the insurance function are funded directly from the QSuper insurance reserve. During the 2007 financial year total fees received in relation to the insurance management function aggregated $5,664,000 (2006: $4,965,000).

From 1 July 2007, the organisation will cease to provide fund administration services to the QSuper Board of Trustees (refer note 14(d) and note 18).

(c) Parliamentary Contributory Superannuation Fund

The organisation provides fund administration services to the Parliamentary Contributory Superannuation Fund Board of Trustees in accordance with the *Parliamentary Contributory Superannuation Act 1970*. Administration fees received from the Parliamentary Contributory Superannuation Fund for the year aggregated $48,000 (2006: $45,000).

The *Parliamentary Contributory Superannuation Act 1970* (Act) was repealed by the *Superannuation (State Public Sector) Amendment Act 2007* (Amendment Act) effective on 1 July 2007. The relevant provisions of the Amendment Act provide for the discontinuation of the Parliamentary Contributory Superannuation Fund (Fund), the dissolution of the body corporate and the transfer of the Fund members and assets to the State Public Sector Superannuation Fund before the repeal of the Act.

(d) QSuper Limited

QSuper Limited has been established to provide fund administration services to the QSuper Board of Trustees from 1 July 2007 (refer to note 14(b) and note 18).

(e) Q Invest Limited (Q Invest)

The QSuper Board of Trustees holds a 50% interest in Q Invest. Q Invest's principal activities consist of providing financial planning advice under an Australian Financial Services licence and to act as responsible entity for the Q Invest Limited Investment Access Funds.

(f) QIC

QIC, a body corporate established under the *Queensland Investment Corporation Act 1991*, holds the remaining 50% interest in Q Invest and is the investment manager for QSuper and the Parliamentary Contributory Superannuation Fund.

Notes to the financial statements

for the year ended 30 June 2007

Note 15 Financial instruments

(a) Interest rate risk

The organisation is exposed to interest rate risk through cash held in the bank.

Under the Cash Management Incentive Regime, the Government Superannuation Office received interest at 4.96% to 5.5% (2006: 4.59% to 4.66%) calculated on the daily bank balance. Overdraft balances attract interest of 8.96% to 9.5% (2006: 8.59% to 8.66%).

(b) Receivables

Receivables are carried at actual amounts with credit advanced normally on 30 day terms. The maximum exposure to credit risk at balance date in respect of receivables is the carrying amount as disclosed in the balance sheet. Accordingly, provision is only made for impairment where recovery of the debts is considered extreme.

(c) Creditors

Creditors are carried at actual amounts and include accrued expenses applicable to the financial year and paid after balance date.

(d) Net fair value

The carrying amount of cash, receivables and payables approximates net fair value.

Note 16 Commitments

Operating lease commitments

As at 30 June 2007, the organisation has the following operating commitments (inclusive of GST) for existing leases:

	2007 $'000	2006 $'000
Within one year	2,573	2,151
Over twelve months and less than five years	1,082	–
Total commitments	3,655	2,151

These commitments will be transferred to QSuper Limited on 1 July 2007 (refer note 18).

Note 17 Contingent liabilities

There are no known actual or possible material claims against the organisation at 30 June 2007.

Note 18 Post balance date events

QSuper is moving towards a framework that will position the Fund to become regulated under Commonwealth legislation. The framework for this transition has been established through the *Superannuation (State Public Sector) Amendment Act 2007*. To support regulation, changes will be made to QSuper's administrator.

From 1 July 2007, QSuper Limited, a wholly owned subsidiary of the QSuper Board of Trustees, will assume responsibility for the provision of administration services to QSuper. The change will also include the transfer of assets, liabilities, and contracts controlled by the organisation to QSuper Limited. Assets include all receivables, prepayments, plant and equipment, and intangible assets. Liabilities include all payables owed by the organisation, including staff entitlements in relation to any staff transferring to direct employment by QSuper Limited. Pursuant to the *Queensland Government Gazette No. 57*, all transfers are for consideration equal to the audited fair value as at 30 June 2007 as disclosed in these financial statements

Certificate of the Government Superannuation Office
for the year ended 30 June 2007

These general purpose financial statements have been prepared pursuant to the *Financial Administration and Audit Act 1977*, and other prescribed requirements and we certify that in our opinion:

(a) the prescribed requirements for establishing and keeping the accounts have been complied with in all material respects; and

(b) the statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of the Government Superannuation Office for the financial year ended 30 June 2007 and of the financial position at the end of that year.

G P Bradley Under Treasurer	R A Vilgan Chief Executive Officer	C J Kaye Chief Financial Officer

Brisbane
3 September 2007

Independent audit report
to the Accountable Officer of the Government Superannuation Office

Report on the financial report

I have audited the accompanying financial report of the Government Superannuation Office which comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, notes to and forming part of the financial statements and certificates given by the Under Treasurer, Chief Executive Officer and Chief Financial Officer of the Government Superannuation Office, for the year ended 30 June 2007.

Accountable Officer's responsibility

The Accountable officer is responsible for the preparation and fair presentation of the financial report. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. These Auditing Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independent audit report (continued)

to the Accountable Officer of the Government Superannuation Office

Independence

The Financial Administration and Audit Act 1977 promotes the independence of the Auditor-General and QAO authorised auditors. The Auditor-General is the auditor of all public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised.

The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

Audit opinion

Matters Relating to the Electronic Presentation of the Audited Financial Report

The audit report relates to the financial report of the Government Superannuation Office for the financial year ended 30 June 2007 included on the QSuper web site. The Government Superannuation Office is responsible for the integrity of the QSuper web site. We have not been engaged to report on the integrity of the QSuper web site. The audit report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report, available from the Government Superannuation Office, to confirm the information included in the audited financial report presented on this web site. These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

In accordance with Section 40 of the *Financial Administration and Audit Act 1977:*

(a) I have received all the information and explanations which I have required; and

(b) in my opinion:
- (i) the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects;
- (ii) the financial report has been drawn up so as to present a true and fair view, in accordance with the prescribed accounting standards of the transactions of the Government Superannuation Office for the financial year 1 July 2006 to 30 June 2007 and the financial position as at the end of the year.

O Clare *FCPA*
As Delegate of the Auditor-General of Queensland

Queensland Audit Office
Brisbane

6 September 2007

Parliamentary Contributory Superannuation Fund

General purpose financial statements for the year ended 30 June 2007

Leith Goebel
QSuper member
since 1981

Parliamentary Contributory Superannuation Fund

Statement of net assets

as at 30 June 2007

	Notes	2007 $'000	2006 $'000
ASSETS			
Investments			
Investment in unit trust	2(c), 4	82,658	57,198
Receivables			
GST receivable	2(d), 2(e)	2	1
Sundry receivables	2(e)	–	3
		2	4
TOTAL ASSETS		82,660	57,202
LIABILITIES			
Payables			
Benefits payable	2(f)	–	–
Sundry payables	2(e)	62	47
		62	47
Tax liabilities			
Current tax liabilities	2(h)	873	(175)
Deferred tax liability	2(h), 8	–	662
Provision for superannuation contributions surcharge	2(i)	3,525	3,073
		4,398	3,560
TOTAL LIABILITIES		4,460	3,607
NET ASSETS AVAILABLE TO PAY BENEFITS		78,200	53,595

The statement of net assets should be read in conjunction with the accompanying notes.

Statement of changes in net assets

for the year ended 30 June 2007

	Notes	2007 $'000	2006 $'000
NET ASSETS AVAILABLE TO PAY BENEFITS at the beginning of the financial year		53,595	36,073
Investment revenue			
Distributions from unit trust	2(j)	9,261	5,696
Change in net market value of investment	2(j)	571	691
Investment management fees	9(d)	(108)	(67)
Interest and sundry revenue	2(j)	6	10
		9,730	6,330
Contribution revenue			
Member contributions	2(j), 7	1,231	1,327
Employer share of benefits paid	2(k), 7	26,935	15,000
Transfers from other funds	2(j)	32	–
		28,198	16,327
Total revenue from ordinary activities		37,928	22,657
Less:			
Benefits paid		7,033	4,085
General administration expenses			
Administration fee	9(c)	49	46
Superannuation contributions surcharge	2(i)	1,118	769
		1,167	815
Total expenses from ordinary activities		8,200	4,900
Total change in net assets before income tax		29,728	17,757
Income tax expense	8	5,123	235
Total change in net assets after income tax		24,605	17,522
NET ASSETS AVAILABLE TO PAY BENEFITS at the end of the financial year		78,200	53,595

The statement of changes in net assets should be read in conjunction with the accompanying notes.

Notes to the financial statements

for the year ended 30 June 2007

Note 1 Merger with the State Public Sector Superannuation Scheme

The *Superannuation (State Public Sector) Amendment Act 2007* (Amendment Act) was passed on 22 February 2007. The relevant provisions of the Amendment Act commenced on 1 July 2007 and provided for the transfer of the Parliamentary Contributory Superannuation Fund (Fund) members and assets to the State Public Sector Superannuation Fund, discontinuation of the Fund and the dissolution of the body corporate immediately prior to the repeal of the *Parliamentary Contributory Superannuation Act 1970*. Consequently these are the final set of financial statements for the Fund.

Note 2 Significant accounting policies

(a) Basis of accounting

General

These financial statements are a general purpose financial report, which has been prepared in accordance with the provisions of the *Parliamentary Contributory Superannuation Act 1970*, Australian Accounting Standard AAS25: Financial Reporting by Superannuation Plans as amended by AASB 2005-13 Amendments to Australian Accounting Standards [AAS25], and other applicable Australian Accounting Standards and authoritative pronouncements of the Australian Accounting Standards Board.

These financial statements have been prepared on an accrual basis under the historical cost convention, except where specifically stated.

Accounting policies

Unless otherwise stated, all accounting policies applied are consistent with those of the prior year. Comparative information is reclassified where appropriate to enhance comparability.

Rounding

Unless otherwise stated, amounts have been rounded to the nearest thousand dollars.

(b) Statement of compliance

The financial statements comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Since AAS25 is the principal standard that applies to the financial statements, other standards, including AIFRS, are also applied where necessary except to the extent that they differ from AAS25.

(c) Investments

The Fund maintains investments for the long-term purpose of providing benefits to members on their retirement, reaching a specified age, death, or termination of employment.

The Fund holds investments in a unit trust with the investments recorded at net market value (refer note 4). Under net market value, the investments are recorded at financial market price less an allowance for costs expected to be incurred in realising the investments. Net fair value of the investments is considered to be equal to net market value.

(d) Goods and services tax (GST)

Revenues and expenses are recognised net of the amount of GST to the extent that the GST is recoverable from the taxation authority. Where GST is not recoverable it is recognised as part of the expense item.

Receivables and payables for which invoices have been issued or received are stated inclusive of GST. However estimates of receivables and payables are recognised net of GST, to the extent that GST is recoverable from the taxation authority. The net amount of GST recoverable from the taxation authority is included as part of receivables in the statement of net assets.

Notes to the financial statements

for the year ended 30 June 2007

Note 2 Significant accounting policies (continued)

(e) Receivables and payables

Receivables are carried at nominal amounts due and receivable. This value approximates net fair value.

Payables (other than benefits payable) represent liabilities for goods and services received prior to year end which are unpaid as at 30 June. Payables are normally settled on 30-day terms.

(f) Benefits payable

Benefits payable by the Fund are accounted for on an accrual basis. Benefits payable comprise the entitlements of members who cease employment prior to year end and have had their claims assessed and approved, but not paid by year end.

(g) Liability for accrued benefits

The liability for accrued benefits, which is mainly of a long-term nature, is actuarially measured on at least a triennial basis. The liability represents the Fund's obligation to pay benefits in the future, and is determined on the basis of the present value of expected future payments which arise from membership of the scheme up to the measurement date. The figure is determined by reference to expected future salary levels and by application of a market-based, risk-adjusted discount rate and relevant actuarial assumptions (refer note 5).

(h) Taxation

The Fund is an exempt public sector superannuation scheme and as such is deemed to be a complying superannuation fund within the provisions of the Income Tax Assessment Act as amended. Accordingly, the concessional rate of 15% has been applied.

Income tax on the benefits accrued as a result of operations for the year comprises current and deferred tax. Income tax is recognised in the statement of changes in net assets except to the extent that it relates to items recognised directly in members' funds, in which case it is recognised directly in members' funds.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the statement of net assets date and any adjustment to tax payable in respect of previous years.

Deferred tax is determined using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantially enacted at reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realised.

(i) Superannuation contributions surcharge

Superannuation contributions surcharge was levied on surchargeable contributions on the basis of individual members' adjusted taxable incomes. The liability for the superannuation contributions surcharge is recognised when the assessment is received from the Australian Taxation Office as the Trustees consider this is when it can be reliably measured.

A liability has been recognised in the financial statements for the amount of surcharge assessments received but not paid, together with interest accrued on this amount.

The *Superannuation Laws Amendment (Abolition of Surcharge) Act 2005* abolished both the superannuation contributions surcharge and the termination payments surcharge in respect of superannuation contributions and certain termination payments made or received on or after 1 July 2005. Assessments for surcharge in respect of contributions and payments for the year ended 30 June 2005 and prior years will continue to be issued and remain payable.

Notes to the financial statements

for the year ended 30 June 2007

Note 2 Significant accounting policies (continued)

(j) Revenue

Revenue is recognised to the extent that it is probable the economic benefits will flow to the entity and that revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- Distribution income is accounted for on an accrual basis and is recognised when the Fund becomes presently entitled to the trust income.
- Changes in net market value of assets are recognised in the periods in which they occur. The changes in net market value include both realised and unrealised movements, net of the allowance for costs expected to be incurred in realising the investments.
- Member contributions are brought to account, gross of any tax, as received. At year end an accrual is recognised for any contributions which relate to whole pay periods ending prior to 30 June but which are received after year end.
- Transfers from other funds and employer share of benefits paid are brought to account when received.
- Interest income and sundry revenue is accounted for on an accrual basis.

(k) Employer share of benefits paid

The financial statements reflect the fully funded position of the Fund pursuant to a last minute funding arrangement. This arrangement is described in the *Parliamentary Contributory Superannuation Act 1970*. The full cost of benefits is met by the Fund, with the Consolidated Fund reimbursing the employers' share of those benefits (refer note 7).

Note 3 Operation of the Fund

The Fund was established by the *Parliamentary Contributory Superannuation Act 1970* to provide benefits for members of the Legislative Assembly of Queensland. It was closed to new members from 17 December 2004. New members elected to the Queensland Legislative Assembly after that date join the State Public Sector Superannuation Fund.

The Fund is a defined benefit fund whereby contributions of the employer are made at rates appropriate to ensure that benefits are fully funded. Contribution rates necessary to meet the Funds' objectives are determined by the Treasurer on advice of the State Actuary. The funding arrangements are explained in note 7 to the accounts.

The Fund has been administered by the Government Superannuation Office, a portfolio office of Queensland Treasury.

Note 4 Investment in unit trust

The Trustees determine the investment objectives and strategy of the Fund. QIC is the legislated fund manager and is responsible for implementing the Trustees' investment strategy.

The assets of the Fund are held in the QIC Growth Fund. The QIC Growth Fund holds investments in Australian equities, international equities, fixed interest, cash and property.

Note 5 Liability for accrued benefits

The last actuarial review of the Fund was conducted as at 30 June 2005 by the State Actuary, Mr W H Cannon BSc (Hons) FIAA. The value of accrued benefits as at that date was $137,151,000. A summary of the most recent actuarial report prepared for the Fund is attached to, but does not form part of, these financial statements. This summary includes the State Actuary's opinion as to the financial condition of the Fund as at that date.

The difference existing between net assets available to pay benefits per the statement of net assets and the value of accrued benefits as at the measurement date is explained by the Fund's funding arrangements. Further details are provided in note 2(k) and note 7.

The actuarial review of 30 June 2005 is the final review for the Fund. The next actuarial review will be as part of the State Public Sector Superannuation Fund as at 30 June 2007 and will be reported in the 2008 financial statements (refer note 1).

Notes to the financial statements

for the year ended 30 June 2007

Note 6 Vested benefits

Vested benefits are benefits that are not conditional upon continued membership of the Fund (or any factor other than resignation from the Fund) and include benefits which members were entitled to receive had they terminated their Fund membership as at the reporting date.

	2007 $'000	2006 $'000
Vested benefits	156,791	155,873

The difference existing between net assets available to pay benefits per the statement of net assets and the value of vested benefits as at reporting date is explained by the Fund's funding arrangements (refer note 2(k) and note 7).

Note 7 Funding arrangements

Funding arrangements are directed at ensuring benefits accruing to members and beneficiaries are fully funded as the benefits fall due.

Members' contributions to the Fund are prescribed by the *Parliamentary Contributory Superannuation Act 1970* at a rate of 11.5% of gross salary (2006: 11.5%). The Treasurer, on advice from the State Actuary, determines the rate of employer contribution into the Consolidated Fund.

As defined benefits become payable, the full cost is met by the Fund, with the Consolidated Fund contributing the employers' share of these benefits. This split funding arrangement is the reason for the difference between net assets available to pay benefits, per the statement of changes in net assets, and the value of accrued benefits and vested benefits as at the respective measurement dates. The proportion of split funding varies from time to time and is determined by the Treasurer on advice from the State Actuary.

The State Actuary recommended the government make a contribution to the Fund of $26,935,000 in the 2006/2007 year. This transaction occurred on 16 February 2007.

Note 8 Income tax expense

	2007 $'000	2006 $'000
Major components of income tax expense for the years ended 30 June 2007 and 2006 are:		
Statement of changes in net assets		
Current income tax		
Current income tax expense	3,669	(175)
Adjustments in respect of current income tax of previous years	2,116	–
Deferred income tax		
Relating to origination and reversal of temporary differences	(662)	410
Income tax expense reported in statement of changes in net assets	5,123	235

Notes to the financial statements

for the year ended 30 June 2007

Note 8 Income tax expense (continued)

A reconciliation between income tax expense and the accounting profit before income tax multiplied by the applicable tax rate is as follows:

	2007 $'000	2006 $'000
Increase in net assets before income tax	29,728	17,757
At the tax rate of 15%	4,459	2,663
Tax effect of non-deductible expenses and non-assessable income in calculating the taxable amount:		
Return on investments	(41)	(300)
Benefits paid	1,055	613
Superannuation contributions surcharge	168	115
Transfers from other funds	(5)	–
Non-assessable members' contributions	(185)	(199)
Exempt pension income	(1,214)	(663)
Net imputation and foreign tax credits	(353)	(175)
Pre-1 July 1988 funding credits	–	(2,083)
Other differences	(877)	264
	3,007	235
Under/(over) provision for taxation – prior year	2,116	–
Income tax expense reported in statement of changes in net assets	5,123	235

	2007 $'000	2006 $'000
Deferred income tax at 30 June relates to the following:		
Deferred income tax liabilities		
Unrealised gains in investment subject to capital gains tax	–	662
Net deferred tax liability	–	662
Movements in deferred income tax liabilities		
Opening balance	662	252
Change to statement of changes in net assets	(662)	410
Closing balance	–	662

Notes to the financial statements

for the year ended 30 June 2007

Note 9 Related parties

(a) Trustees

The Trustees of the Fund as at 30 June 2007 were the Honourable Peter Beattie MP, Premier, Jeffrey Seeney MP, Leader of the Opposition, and the Honourable Michael Reynolds MP, Speaker of the Legislative Assembly. On 9 October 2006, the Honourable Anthony McGrady resigned as Speaker of the Legislative Assembly and Trustee of the Fund. The Honourable Michael Reynolds was then appointed as Speaker of the Legislative Assembly and Trustee of the Fund. On 18 September 2006, Jeffrey Seeney became a Trustee of the Fund when he was chosen as Leader of the Opposition succeeding Lawrence Springborg. On 13 September 2007, the Honourable Peter Beattie resigned as Premier.

(b) Employer sponsor

Employer funding arrangements are discussed in note 2(k) and note 7.

(c) Government Superannuation Office (GSO)

The GSO provides fund administration services to the Fund in accordance with the *Parliamentary Contributory Superannuation Act 1970.* Administration fees paid to the GSO for the period totalled $49,000 (2006: $46,000).

(d) QIC

QIC is the Fund investment manager. It is a body corporate established under the *Queensland Investment Corporation Act 1991.*

QIC receives payment for its investment services by way of a fee that is charged monthly. Fees paid to QIC for the period totalled $108,000 (2006: $67,000).

Note 10 Financial instruments

(a) General

The Fund, via its investment in the QIC vehicle, has investments in a variety of financial instruments, including derivatives, which exposes the Fund's investments to various investment risks, including market risk, credit risk, interest rate risk, and currency risk.

QIC provides regular reports on the Fund's investments to the Administration Officer of the Fund. This includes receipt of a formal Derivative Risk Statement from QIC.

The Administration Officer, on behalf of the Trustees, also seeks information and advice from QIC on the performance of the individual asset classes of the Fund (and may also seek independent advice from other qualified persons) so as to form an opinion on the nature and extent of risks and returns.

(b) Credit risk

The net market value of financial assets included in the statement of net assets represents the Fund's exposure to credit risk in relation to those assets.

(c) Interest rate risk

The Fund is exposed to interest rate risk through cash held in the bank account.

The Fund's investment manager invests in financial assets that are subject to interest rate risk. The returns on investment fluctuate in accordance with movements in market interest rates.

(d) Net fair value

The Fund's financial assets are included in the statement of net assets at net market value amounts that approximate net fair value. The methods of determining net market value are described in note 2(c).

Notes to the financial statements

for the year ended 30 June 2007

Note 11 Insurance

The Fund provides death and disability benefits to members on a self-insurance basis. These benefits are greater than the members' vested benefit.

Note 12 Segment information

The Fund operates solely in the business of provision of benefits to members and operates in Australia only.

Note 13 Contingent assets

The Commonwealth Government amended the legislation governing the application of Pre-1 July 1988 Funding Credits (PJFC) in its 2006 Budget. The Trustees have been advised that the Fund may be entitled to a PJFC deduction for the financial year ended 30 June 2006. At this time, the State Actuary has not finalised his advice in respect of the PJFC deduction.

The Trustees have been advised that the Fund will not be entitled to a PJFC deduction for the year ended 30 June 2007.

Note 14 Commitments and contingent liabilities

The Fund has no known material commitments or contingent liabilities as at 30 June 2007.

Note 15 Post balance date events

There were no known material events which occurred subsequent to balance date, apart from the disclosure in note 1.

Statement of the former Trustees of the Parliamentary Contributory Superannuation Fund
for the year ended 30 June 2007

In the opinion of the former Trustees of the Parliamentary Contributory Superannuation Fund:

1. the accompanying financial statements of the Parliamentary Contributory Superannuation Fund are properly drawn up so as to present a true and fair view of the net assets of the Fund as at 30 June 2007 and the changes in net assets for the year ended on that date;
2. the accompanying financial statements have been prepared in accordance with the provisions of the repealed *Parliamentary Contributory Superannuation Act 1970*, and with Australian Accounting Standards and other mandatory professional reporting requirements in Australia;
3. the accompanying financial statements are in agreement with the accounts and records of the Fund and the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and
4. the Fund has been conducted in accordance with the requirements of the repealed *Parliamentary Contributory Superannuation Act 1970*.

Jeffrey Seeney MP
Leader of the Opposition

Hon Michael Reynolds MP
Speaker

Rosemary Vilgan
Former Administration Officer

Brisbane
26 September 2007

Independent audit report
to the former Trustees and members of the Parliamentary Contributory Superannuation Fund

Matters relating to the electronic presentation of the audited financial report

The audit report relates to the general purpose financial statements of the Parliamentary Contributory Superannuation Fund for the financial year ended 30 June 2007 included on the QSuper website. The Government Superannuation Office is responsible for the integrity of the QSuper website. We have not been engaged to report on the integrity of the QSuper website. The audit report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial statements are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited general purpose financial statements, available from QSuper, to confirm the information included in the audited financial report presented on this website. These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

Report on the financial report

I have audited the accompanying financial report of the Parliamentary Contributory Superannuation Fund which comprises the statement of net assets, statement of changes in net assets, notes to the financial statements and certificates given by the former Trustees and Administration Officer for the year ended 30 June 2007.

The former Trustees' responsibility

The former Trustees are responsible for the preparation and fair presentation of the financial report in accordance with the requirements of the repealed *Parliamentary Contributory Superannuation Act 1970*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. These Auditing Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

The *Financial Administration and Audit Act 1977* promotes the independence of the Auditor-General and QAO authorised auditors. The Auditor-General is the auditor of all public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised.

The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

Audit Opinion

In my opinion the financial statements of the Parliamentary Contributory Superannuation Fund are in accordance with –

(a) the provisions of the repealed *Parliamentary Contributory Superannuation Act 1970,* and

(b) the prescribed accounting standards and other mandatory professional reporting requirements in Australia, including giving a true and fair view of the Parliamentary Contributory Superannuation Fund's net assets and changes in net assets for the year ended 30 June 2007.

G G Poole *FCPA*
Auditor-General of Queensland

28 September 2007

Queensland Audit Office
Brisbane

Appendix

Summary report on the actuarial investigation of the Parliamentary Contributory Superannuation Fund as at 30 June 2005

The latest actuarial investigation of the Parliamentary Contributory Superannuation Fund (the *Scheme*) was conducted as at 30 June 2005 by Mr W H Cannon BSc (Hons) FIAA FFin. The previous valuation was undertaken as at 30 June 2002. The term *Fund* refers to the assets held in the Parliamentary Contributory Superannuation Fund. Below is a summary of the main findings of the 2005 valuation.

Financial condition

This investigation has revealed that, based on the long-term funding arrangements, the Scheme is in actuarial deficit by $28,292,000. This represents a decrease of $52,651,000 from the surplus at the 2002 investigation.

The main factors causing this decrease have been:

- the change in the funding arrangements of pension liabilities;
- the recognition that future pensions will be indexed annually in line with increases in backbenchers' salaries, rather than CPI; and
- the previous recommendation that the Scheme meet 100% of benefit payments in order to reduce its surplus.

In order to optimise the funding of the Scheme and reduce the actuarial deficit the Actuary has recommended that:

- the Government make a one-off contribution to the Scheme of $15,000,000 in June 2006. This transaction occurred on 29 June 2006;
- new pension benefits that emerge upon members' exit from the scheme be fully funded at emergence;
- all pension payments to members be met fully from the Scheme, with no 'last minute' contributions by the Consolidated Fund;
- the State share of all non-pension benefit payments remain at 0% until 30 June 2006; and
- from 1 July 2006, the State share of non-pension benefit payments and pension commencement contributions revert to 109%.

With the implementation of these recommendations, the Fund is in an actuarial surplus of $655,000 at 30 June 2006.

The Actuary has certified that the expected liabilities of the Scheme should be adequately provided for by the assets of the Fund, together with the Funds' investment earnings and member and employer contributions at the recommended level. Taking into account the funding arrangements of the Scheme, the statements required under *Superannuation Industry (Supervision) Regulation 9.31* are not applicable.

Value of assets

The actuarial value of the Fund's assets as at 30 June 2005 was $36,074,000, incorporating a reserve for contingent capital gains tax of $252,000. This asset value was used to determine the recommended contribution rates.

Vested benefits

Vested benefits are the benefits to which members would be entitled if they terminated service at the date of calculation. The relationship between vested benefits and plan assets at any particular date usually provides an indication of the Fund's ability to provide benefits on a short-term basis. However, a difficulty arises with this Scheme in examining vested benefits because a proportion of benefits is not met by the Fund but instead is met by the State. In order to allow a meaningful comparison to be made between the Fund's assets and the vested benefits, the proportion of vested benefits that would be payable by the Fund has been estimated, based on the long-term State proportion of benefit payments (viz. 95%).

In addition, the Scheme provides different leaving service benefits depending on whether members leave voluntarily or involuntarily. In practice, only members with eleven or more years of service leave voluntarily whilst earlier exits are generally involuntary. In addition, the difference in value between these benefits is quite large between eight and eleven years service. Vested benefits have therefore been defined as involuntary leaving service benefits for members with less than eleven years service and voluntary leaving service benefits otherwise. It has further been assumed that the proportion of relevant members choosing the pension benefit would be the same as used in the investigation.

The total value of vested benefits payable by the Fund as at 30 June 2005 was $65,500,000. This includes vested benefits in respect of active members, preserved benefits in respect of former and active members and the value of pensions payable to former members and beneficiaries[1], and allows for the estimated level of vested contributions tax.

The ratio of the Fund assets to the total vested benefits required to be paid by the Fund in respect of active members was –89%. The ratio is negative due to change to the funding arrangements of pensions during the intervaluation period. Allowing for the proposed Government contribution, the comparable index would be -14%. Although the index remains negative, the Fund can withstand a lower level of vested benefits cover than might normally be acceptable because the State can be assumed to be perpetual.

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[1] The value of preserved benefits in respect of former and active members and of pensions payable to former members and beneficiaries was $49,926,000,000.

Appendix

Summary report on the actuarial investigation of the Parliamentary Contributory Superannuation Fund as at 30 June 2005 (continued)

Accrued benefits

Accrued benefits are the benefits that the fund is committed to provide in the future in respect of membership of the fund completed at the reporting date. The relationship between the expected value of accrued benefits and the fund's assets at a particular date may be used as a guide to the fund's ability to provide benefits on an ongoing basis.

The accrued benefits of the fund comprise the following items:

- accrued benefits for active members in respect of their membership up to the date of investigation
- pensions currently payable to former members and beneficiaries
- funds held in abeyance for former members
- preserved benefits for current members (Roll-ins)
- retained benefits for former members.

The aggregate value of accrued benefits was determined by the actuary as at the date of the actuarial investigation on the following basis:

- Accrued benefits for active members were assumed to increase in line with general levels of salary inflation.
- Accrued benefits were assumed to be payable (or for pensioners, cease to be payable) on the leaving of service, death or disablement of members in a manner consistent with the assumptions made in the most recent actuarial valuation of the fund.
- The present value of accrued benefits was assessed by applying a discount rate equivalent to an investment return that is 3.0% per annum in excess of assumed salary inflation. Salary inflation was assumed to be 4.0% per annum. This assumed investment return allows for all forms of investment income, dividends, rents, and capital gains, and is assumed to be net of investment management fees and taxes.
- Accrued benefits were apportioned between past and future service using the Actual Accrual Approach. This is equivalent to allowing only for the period of service up to 30 June 2005 when calculating the expected benefits payable in future years.

The total value of accrued benefits payable by the Fund as at 30 June 2005 was $65,600,000, including an allowance for the estimated level of accrued contributions tax.

The ratio of the Fund assets to the total discounted value of accrued benefits required to be paid by the Fund in respect of active members was -88%. Allowing for the proposed Government contribution, the comparable index would be -14%. Although the index remains negative, the Fund can withstand a lower level of accrued benefits cover than might normally be acceptable because the State can be assumed to be perpetual.

Key assumptions

Discount rate

The assumed long-term earning rate on the fund's assets after tax and investment expenses is 7.0% per annum.

Salary growth

Long-term salary and future pension growth due to inflation is assumed to be at the rate of 4.0% per annum.
Salary growth due to promotion was ignored.

Inflation

This assumption is relevant for the purposes of valuing pensions that are increased in line with increases in the CPI. Pensions in payment have been assumed to increase at the rate of 3.0% per annum.

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